THE
CANADIAN BANKING SYSTEM
1817 — 1890

BY

ROELIFF MORTON BRECKENRIDGE, PH. B.
Seligman Fellow in Economics
Columbia College

SUBMITTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE
DEGREE OF DOCTOR OF PHILOSOPHY
IN THE
UNIVERSITY FACULTY OF POLITICAL SCIENCE
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TORONTO
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PREFACE

IF any were required, a reason—perhaps a sufficient reason—for the present investigation might be offered in the circumstance that an essay to present in a systematic and fairly thorough manner the facts with which I have attempted to deal, has never yet appeared in print. The growth and improvement of the banking system are parts of the commercial and legislative history of Canada even less cultivated than the broader field of its economic history. Yet the course of the development ought by no means to be devoid of interest; the results in some respects are unique; and where it is now carried on the Canadian system of banking is believed to be productive of the highest possible advantages.

A second reason could well be found in relation with the banking situation of the United States. Observers in all quarters have noticed the growing necessity for reform in the currency and banking system of this country, and have remarked the demonstration of the necessity in the frightful crisis precipitated by distrust in the value of the currency commonly used. They have noticed also, especially among those who are most deeply interested in the organization of credit, the growing conviction of this necessity—a conviction of which the last and most significant expressions are the resolutions adopted on the 11th October, 1894, by the American Bankers' Association, in convention assembled at Baltimore. It is possible, at least, that from some account of the Canadian banking system an American will obtain instructive contrasts, as well in history, as in present organization and methods of operation, to the system of banking and bank legislation which has obtained in the United States.

Of the few short summaries or historical sketches hitherto published, the greater number are unreliable, even in respect to the facts which are included. The principal legal text on banking under Dominion legislation is not exempt from errors where the author has digressed to history, while certain others, who likewise affected the cursory style, have committed still more mistakes. Better types, or worse, of the current misstatements than are in the historical survey of Canadian banking prepared for the Statistical Year Book of Canada for 1893, could not be found. And this is a public document issued by the Department of Agriculture. But to indulge in polemic, or to correct such carelessness or untruth specifically, would be seriously to abbreviate the treatment of truths relating to the system. It has been necessary to restrict this essay, as far as possible, to exposition alone.

The principal sources of the narrative are in the public documents of the several British North American provinces and of the Dominion of Canada. The statutes passed from year to year ought to be named first, and then the legislative or parliamentary documents of Upper Canada, Lower Canada, Canada, New Brunswick, Nova Scotia, and the Dominion of Canada. Since the Confederation of the provinces in 1867, the collected debates of the Parliament of Canada—the Hansard's reports—have been of service. Prior to that time, debates were reported only in the newspapers of the day. It has been necessary to consult the files of various journals both for debates and for other questions arising at nearly every stage of the inquiry. Memoirs, biographies, and miscellaneous historical works have also been examined.

For light upon matters within their recollection and for information as to the practical working of the Canadian banking system, I am indebted to the courteous and generous assistance of the many Canadian bankers to whom my queries have been put. Without their help the task of research would have been immeasurably more severe. Especial obligation must be acknowledged to Messrs. Jas. Stevenson, B. E. Walker, George Burn, H. S. Steven and Wm. Munro. To the Honorable George E. Foster, D.C.L., Minister of Finance and Receiver-General; to J. M. Courtney, Esquire, Deputy Minister of

Finance, and to members of the permanent staff of the Finance Department; to Messrs. Martin O. Griffin, F. Blake Crofton and W. T. R. Preston, Librarians of the Library of Parliament and of the Legislative Libraries of Nova Scotia and Ontario respectively; and to the Editing Committee of the *Journal of the Canadian Bankers' Association*, who have undertaken the publication of the essay in Canada, are also due the heartiest acknowledgments for assistance of various kinds.

OCTOBER, 1894.

CORRIGENDA

p. 85, note 2, l. 2, for G. Poulette Lerope read G. Poulett Scrope.

p. 97, l. 25, for *legislations* read *legislation*.

p. 97, l. 35, add *is difficult to determine*.

p. 111, l. 16, for *modifications* read *modification*.

p. 135, l. 33, for *has* read *had*.

p. 146, l. 27, for *Two or three agents . . . office*, read "*Two or three agents . . . office*."

p. 152, note 1, l. 9, for *101* read *58;* l. 11, for *11* read *21*.

p. 156, note 1, delete *The charter*

p. 162, note 1, add *Exchange Bank of Yarmouth*.

p. 163, l. 14, add *Exchange Bank of Yarmouth*

p. 173, l. 1, 2nd clause, for *one* read *two*.

p. 173, note 2, l. 2, after *Windsor* add *and the Exchange Bank of Yarmouth*.

p. 179, l. 12, for *question* read *questions*.

p. 224, l. 26, for *organized* read *recognized*.

p. 224, l. 36, for *were* read *was*.

p. 253, note 4, l. 8, for *144* read *244*.

p. 289, l. 35, for *arises* read *arise*

p. 295, l. 9, for *issue* read *use*.

p. 295, l. 32, for *issued* read *used*.

p. 303, l. 7, insert after August, *1894*.

p. 304, l. 37, for *balance* read *balances*

p. 305, l. 19, for *was* read *is*.

p. 308, l. 3, for the first *at* read *for*.

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THE
CANADIAN BANKING SYSTEM
1817 - 1890

CHAPTER I.—INTRODUCTION

THE economic character of banking transactions varies little, wherever they may be concluded. To perform the functions of discount, deposit and note issue, to exchange rights to demand money for money, money for rights to demand it, and rights to demand money for other rights to demand it—from one point of view, that is the whole of banking. Banking systems differ, not so much in the character of their economic services, as in the degree of perfection with which those services are performed, the methods of accomplishing them, the principles on which banks are organized, the powers confirmed to banks by statute, and the obligations and restrictions imposed upon them —the manner and completeness, in short, of the fulfilment of banking functions. Where, as in the territory which forms the present Dominion of Canada, banking has been subject to special enactments, since the time, practically, of its first introduction, it is possible to find in the statutes, or to infer from them, a tolerably accurate idea of that complex of business methods, principles of organization and legislative regulations which make up a system of banking. The purpose, therefore, of this investigation will be to trace the course of Canadian banking legislation from the grant of the first bank charters to the Bank Act of 1890.

The purpose thus stated avoids the implication of an effort to give the banking history of Canada, while it by no means precludes whatever reference to the political, economic, or banking history of the country, may serve better to explain the measures adopted by Legislatures. Government, post office or other savings banks, or the so-called land banking, will not be treated, for the inquiry is limited to what, in the English sense, are denoted by the simple expression "banks," and what, in Canada, have been joint-stock banks of issue, discount and deposit, incorporated or recognized by local legislative authority.

The Parliament which now has exclusive jurisdiction in matters incident to banking, incorporation of banks, and the issue of paper money, is of as recent origin as the Dominion of Canada itself. Thirty years ago, neither were more than the proposals of a group of energetic and far-seeing colonial publicists. The territory now included in the Dominion was cut up into six or more different jurisdictions, those important for our purpose being the Provinces of Canada, Nova Scotia and New Brunswick. Fifty-four years ago, the Union of what are now the Provinces of Ontario and Quebec, had not been accomplished, and these parts of British North America were separately governed as the Provinces of Upper Canada and Lower Canada. The first part of the study, accordingly, will be based, not on the uniform legislation of a great Dominion, but on the independent and somewhat diverse statutes of four distinct colonies. But for reasons which will be explained in due time, events in the two Canadas and in the late Province of Canada are facts more essential to a right understanding of what may be called the national era of Canadian banking legislation, than the course of affairs in the maritime provinces of Nova Scotia and New Brunswick. So while significant phenomena in the latter colonies should not be neglected, the earlier inquiry must be mainly directed to the development of banking legislation in the Canadian provinces. The study will therefore be rightly entitled what it is, as well in its first part, as in the last.

Canadian banking, both in the earlier periods of its growth and the present stages, has often been compared to Scotch banking. The analogy is better, no doubt, than that between Canadian banking and the few other systems, the statutory regulation of which, while establishing safeguards, has not hampered the prosecution of banking business in all its branches. It is peculiarly true of the Scotch banks that, untrammelled by re strictions and unexploited by government, they acquired what are still their distinguishing characteristics, in the exercise of all the functions which, according to the Anglo-Saxon idea, belong to banking. The three great conditions of their development were freedom, competition, and the necessity promptly to perform banking contracts. The result was a system of banking whose principal features were the small number of banks, their large capitals, establishment and operation of branch banks, competitive issue of notes on the general credit of parent banks, payment of interest on deposits, and regular, frequent conduct of exchanges between the banks. It is true that both in the comparative freedom of its development, and in the characteristic features which it displays to-day, the Canadian system is very like the Scotch.

Still, the economic needs and opportunities which led to the introduction of banking, and the policy of government towards this form of economic activity have not, of course, been exactly the same in one country as in the other. It is not to be expected that the analogy, however close, should be complete. Scotch banking is a development which may be described, with a tolerable accuracy, as indigenous. In Canada the needs were native, but the banking system was borrowed, copied, transplanted, if you like, from countries where it was already established. Eight of the present Scotch banks were originally private partnerships. All but four of the thirty-eight Canadian banks were from the outset corporations created by Legislatures or by Parliament. By Sir Robert Peel's measures of 1845, the freedom to issue notes was abolished in Scotland, and thereby a monopoly, both of the issue and of other departments of banking, established for the banks then in existence.[1] Canada has preserved not only competition between the old banks, but also the possibility to found new ones, while the effective limitations upon uncovered note issue by those to whom the power is confirmed are not statutory, but economic. There is no requirement, as in Scotland, that gold shall be held in the banking reserves to an amount sufficient to cover circulation in excess of a certain fixed amount, and during the last forty years the total amount of notes outstanding has never reached the limit to which the banks might legally issue. The regulation of the bank note currency of Scotland by the Act of 1845, was prompted largely by the purpose of securing in that the same fluctuations as would occur in a metallic circulation; the precautions adopted in Canada were designed merely to insure the immediate convertibility of bank notes at all times and places, and to make their ultimate payment certain. In their business one finds still other differences. The only variety of Canadian advance similar in form to the Scotch "cash credit" is the overdrawn account, which bankers are inclined to discourage, although in a different form, especially in their business with farmers, graziers and drovers, the Canadian banks lend freely for many of the purposes which the "cash credit" has served in Scotland. Further, the banking competition in Canada is more varied and intense. It prevents the adjustment of the minimum rate of discount and the maximum interest payable on deposits, to which Scotch banks regularly agree, and by which they stand.

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[1] Evidence taken before the Select Committee of the House of Commons on Banks of Issue, London, 1875; replies to questions 954 and 955.

But in that banking operation that so immediately interests the whole public—the issue of notes to circulate as money—what was originally substantial identity has been altered by legislation. The early freedom and simplicity of the Scotch note issue has been taken away. Because the Act of 1845,[1] as already indicated, requires them to hold gold in their banking reserves equal to the circulation in excess of their authorized issue, the Scotch banks can no longer meet the temporary but periodical demands for expansion in the bank note currency without cost or inconvenience to themselves. Twice each year must they incur the expense of importing quantities of gold, leaving the parcels in their vaults unopened and unused, and exporting them again when the circulation has fallen to the lower level. But the chief burden which is thus imposed upon the Scotch Banks lies in this, that when the circulation reaches a certain point, its further temporary expansion is only effected at the expense of depleting their loanable funds to a like extent. Such restrictions the Canadian banks have escaped. They are, to be sure, subject to statutory provisions as to the total issue of each bank, the redemption of notes at par in every part of the country, the maintenance of a common fund to guarantee the circulation, and the prior lien of the note holder upon an insolvent bank's estate. To supply, however, the recurrent need for added currency is to them a cause of no real cost, while to a much greater extent than in Scotland, it is a source of direct advantage. It is important to note that in both countries the public share this advantage; through elastic issues upon their general credit, banks are enabled to minimize fluctuations in the rate of discount, to reduce or waive charges that otherwise they would be obliged to make, and also to maintain branch offices at small points which otherwise would be inevitably deprived of banking facilities.

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[1] 8 and 9 Vic., cap 38, An Act to regulate the Issue of Bank Notes in Scotland.

After all, however, what we particularly need to know in judging of a currency is comprised in the questions, "Is it ultimately secure? Is it immediately convertible? and, Is it elastic?" Whether it relates to the bank notes of Canada or of Scotland, each of these queries may be answered in the affirmative; that is to say, each country has a safe and inexpensive currency at all times adequate in volume and never inflated.

When we come to view the services which each country has derived from its banking system, the analogy reappears. In Canada, as in Scotland, the history of banking records singularly few frauds upon the currency, and, so far as their creditors were concerned, the losses inflicted by insolvent bankers have been remarkably slight. In order to reform the system, it never became necessary to maim it; in neither country has banking developed the abuses that,

> "diseases desperate grown
> By desperate appliance are reliev'd,
> Or not at all."

Both Scotch and Canadian banks collect with astonishing efficiency the disposable capital of the communities in which they work, and utilize it in assistance of commercial, industrial and agricultural enterprise. Both enjoy the firm and judicious confidence of the people whom they serve. Both have successfully built upon the foundations of their capitals great structures of credit from which their clients get full benefit. Both groups conduct the multifarious exchanges of domestic and foreign commerce and make them easy, quick and cheap. It may be said that these are the tasks of any banks. So, indeed, they are, but "in all economical and political things, questions of magnitude and intensity are of vital importance; the question very often is, not what color a thing is, but what shade of color."[1] The real advantages of either system appear only after it is seen how thoroughly has its community acquired the depositing habit; what support do bank customers get in times of crisis as well as in seasons of prosperity; how nearly is the rate of interest uniform throughout the country; and how low have charges for other banking services been reduced.

Turning now to consider the scientific discussion evoked by each system, one no longer sees resemblance, but contrast, and that of the most marked sort. Among the banks of the old world none have received higher praise for their practical services, or more thorough approval for the theoretical excellence of their banking system, than the banks of Scotland. Sir Walter Scott wrote in defence of the system. Courcelle-Seneuil admired it. Dr. Adolph Wagner has praised it. And in every treatise on banking theory it occupies an important place. But outside of a few published addresses, occasional pamphlets, fugitive magazine articles, and the newspaper discussion of measures proposed to Parliament, the Canadian banking system, in scientific works at least, has remained unnoticed, undescribed, unjudged. Abroad it has been easily dismissed as "colonial." At home it may well be that the very merits of the Canadian banks have been the cause of this neglect. To say that Canadians do not appreciate their banking system would be untrue; they have repeatedly refused to give it up. But only of defective institutions do men complain and agitate for reform; good ones they often accept as matters of course.

The purpose of this monograph, however, is to describe facts relating to the Canadian banking system, rather than to eulogize its merits. It is proposed in the next two chapters to examine the earlier legislation of the Canadian colonies and the forces at work in its development, and to make some study of the crisis of 1837 and the suspension of specie payments. In subsequent chapters the reforms embodied in the bank charters passed prior to 1867 will be pointed out, and the efforts to introduce "free banking," as well as the reasons for their failure, will be detailed. In a fifth chapter the legislation of Nova Scotia and New Brunswick will receive the necessary attention. After 1867 the uniform and general Bank Acts of the Dominion will need extended notice. At the same time the various attempts to alter the character of the system will be described, together with the reasons for the policy which prevailed ; the growth in the number and resources of the banks will be illustrated, and from the banking history such facts will be given as will explain, in part, the measures adopted by Parliament. At the close of the historical part it is proposed to examine with greater thoroughness than was previously possible, the characteristic features of the present Canadian banking system, and some of its practical workings.

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[1] WALTER BAGEHOT, Evidence, *ut supra*, Reply to question 7,976.

Before beginning to trace the development of seventy-seven years, we may so far anticipate as to quote certain American comments upon the result.

"We know of no system that more closely conforms to the best and broadest economic ideals of banking; none better calculated to afford the largest possible public accommodation; none better adapted to insure a safe utilization of the surplus balances of the people; and none better qualified to supply the daily fluctuating wants of trade with a safe and convenient circulating medium."[1]

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[1] N. Y. *Daily Commercial Bulletin*, 18th January, 1890.

CHAPTER II

THE EARLY BANKS IN LOWER CANADA

§ 1.—THE FIRST BANKS

THE cause of the first considerable effort to establish a bank of issue, discount and deposit in the present Province of Quebec, was the scarcity and variety of specie in circulation; the scene, the city of Montreal; the time, 18th October, 1792. In the official *Gazette* of that date appeared the following circular:

"The undersigned, having experienced great inconvenience in Canada from the deficiency of specie or some other medium to represent the increasing circulation of the country, as well as from the variety of the money now current, and knowing the frequent loss and general difficulty attending receipts and payments, have formed the resolution of establishing a Bank at Montreal, under the name of the 'Canada Banking Company.'

"The business proposed by the Company and usually done by similar establishments, is:

"To receive deposits in cash.

"To issue notes in exchange for such deposits.

"To discount bills and notes of hand.

"To facilitate business by keeping cash accounts with those who choose to employ the medium of the Bank in their receipts and payments.

"It is proposed to extend the operations of the Bank to every part of the two provinces where an agent may be judged necessary; and it is presumed that the institution will be particularly beneficial to the commerce of and intercourse with the Upper Province.

"(Signed) PHYN, ELLICE & INGLIS,
"TODD, MCGILL & CO.,
"FORSYTH, RICHARDSON & CO."

The firms who issued the circular did not carry out their plans. A private bank, chiefly of deposit, was the only result of their endeavors.[1]

The unsatisfactory condition of the currency continued, aggravated somewhat by the export of gold to the United States. The rates in the colonial money of account, at which certain American, British, Portuguese, French and Spanish coins were legal tender, were altered in 1795, and the legal ratio of gold to silver somewhat bettered in order to keep the gold in the country. Some relief was afforded by the measure, but the commerce of the colony was growing. The enterprise of Scotch and English immigrants, as well as of refugees from the former colonies south of Canada, had assisted also in the considerable agricultural development. The new activities needed facilities for exchange, and the country, as yet, could ill afford the luxury of a metallic circulating medium. A second attempt to found a bank of issue occurred 6th March, 1807, at a meeting in the city of Quebec, assembled in response to a call in the *Quebec Gazette* of the 4th March. But no bank was established.

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[1] JAS. STEVENSON, "The Currency of Canada after the Capitulation," Transactions of the Literary and Historical Society of Quebec, 1876-7, p. 122.

The next year, in February, a petition of divers inhabitants of the cities of Quebec and Montreal, praying to be incorporated under the title of the "Canada Bank," was presented to the Provincial Legislature.[1] A special committee to whom the matter was referred, reported favorably with a bill. Many objections were offered, most of them ill taken from a more modern point of view, and the bill failed to pass.

From July, 1812, until the latter months of 1815, the Canadian colonists used a currency composed for the most part of promissory, legal tender "Army Bills" issued by the Government as a financial aid in the war with the United States. This currency, though slightly depreciated, had the merit of being uniform and expressed in the convenient denominations of the colonial currency. Bills for $25 and over bore interest at 6 per cent. All notes were received for public dues and were convertible into Government bills of exchange on London at thirty days sight, at the rate of exchange as fixed by authority, or into cash, at the option of the commander of the forces. As the rate was fixed by commissioners whose duty was to make the fairest possible approximation to the market rate of exchange, the holders of the Army Bills had slight cause for complaint. At the close of the war, the outstanding issues, amounting to £1,249,996 currency in March, 1815, were reduced through rapid redemption to less than £200,000 currency by May, 1816.[1] The office of issue was finally closed 24th December, 1820.[2]

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[1] JAS. STEVENSON, *ut supra*, p. 132.

The contraction of the Army Bill circulation caused inconvenience in Upper Canada, and the Lower Province, with its greater trade, suffered still more. Soon after the redemption was practically complete, the bank question was revived. But the participants in the next attempt to establish a bank published no detailed *exposé* of their motives. Nor did they seek the preliminary consent of the Legislature. They simply began their business. On the 23rd of June, 1817, a company of persons met at Montreal and signed articles of agreement by which an association was formed, with a joint and transferable stock, limited to £250,000[3]. Late in August, the new association opened an office as the Bank of Montreal. And this, the first bank of discount, deposit and issue to be established, either in Lower Canada, Upper Canada, Nova Scotia or New Brunswick, is to-day the greatest bank, not only in the Canadian Dominion, but in the whole of North America.

An Act incorporating the association was passed at the next session of the Legislature, but was reserved by the Governor for the signification of the Royal pleasure. The Royal assent was withheld and the Bank of Montreal continued as a private partnership.

The example set by Montreal was followed the next summer by citizens of Quebec. Articles of association of the Quebec Bank were signed 9th July, 1818. Directors were elected in

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[1] Canadian currency, more often called Halifax currency, was an arbitrary money of account used in all the larger British North American Provinces until the decimalization of the currencies in the early fifties of the present century. The denominations were dollars, pounds, shillings and pence; the table 12d. = 1 shilling, 20s. = £1, 5s. = $1, the dollar being originally the Spanish pillar dollar, coined before 1772 and containing 385 grains fine silver. This currency was established for the Province of Canada by an ordinance of 1765, which changed the monetary nomenclature from French to English, but adopted as money unit a shilling, equal in value to the old French *livre*, *vide* Stevenson *op. cit.* p. 124. The unit was often altered slightly, and, after the debasement of the American coinage in 1834, was reduced so that the dollar unit of the two systems would correspond. In 1841 the £ sterling was reckoned at 24s. 4d. currency; the dollar (U. S.) at 5s. 1d., but after 1850 at 5s.

[2] For complete details respecting this issue, including all the important documents, *vide* STEVENSON, "The Circulation of the Army Bills with some remarks upon the War of 1812," Transactions, *ut supra*, 1891-92, p. 30.

[3] Journal, L. C., 1820-1821, p. 103.

September,[1] and this bank also started as a private partnership, its capital being limited to £75,000. The members of the association applied for incorporation in 1819, without success, however, for the bill failed even to come before the committee of the whole House.

A third bank was organized by another group of Montreal citizens on the 25th August, 1818, as the Bank of Canada, the capital limit of which was finally set at £200,000. This bank, too, applied for a charter, but failed to secure it.[2]

Finally, in the winter of 1820-21, the shareholders of each of the three banks thus established again petitioned the Legislature to be erected into bodies corporate and politic. They recited in effect that their capital stocks had been all subscribed, that the portion of which the payment was required by the articles of agreement had been paid in, that they had been engaged for some years in the business of banking, and that, without the benefit of incorporations, the beneficial purpose contemplated by the establishment of the banks would be imperfectly attained, and great inconveniences would be incurred in the conduct of their business.[3] They prayed, therefore, to be incorporated under regulations and provisions as nearly corresponding with the terms of their original association as might be, and under such other regulations and provisions as the Legislature might prescribe.

The prayers of the petitioners were granted. On the 17th March, 1821, three charters incorporating the several banks were presented by the Legislature for the Royal assent. Being reserved by the Governor, the charters did not become law for over a year. "An Act to incorporate certain persons therein named under the name of 'The President, Directors and Company of the Bank of Montreal'" (1 Geo. IV., cap. 25, L.C.) was proclaimed the 22nd July, 1822. Similar statutes respecting the Quebec Bank (1 Geo. IV., cap. 26, L.C.), and the Bank of Canada (1 Geo. IV., cap. 27, L.C.), were proclaimed on the 30th November of the same year.[4]

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[1] The Shareholder and Insurance Gazette, September 12th, 1890, "The Quebec Bank," by an anonymous writer, known, however, by me to have access to the records of the institution.

[2] Journal, L. C. 1820-21, p. 40.

[3] *Ibid*, pp. 40, 48, 103.

[4] Statutes of Lower Canada, Vol. XI., 1821-24, following p. 248.

§ 2.—THE FIRST CHARTERS

Save in regard to the amounts of their capital, the location of the banks and the conditions as to the residence of the directors, the provisions of the three charters were practically identical. The charter of the Bank of Montreal may be taken as the type. The preamble declared the "advancement of agriculture and commerce and the promotion of the prosperity of the province" to be the motives for the legislation. One hundred and forty-four persons, then the stockholders of the company, their successors and assigns, were created in this instance a body corporate and politic, with corporate powers continuing to the 1st June, 1831. Their capital stock was limited to £250,000 currency, the whole to be paid in by annual instalments of not more than 10 per cent. within nine years from the passing of the Act.

Thirteen directors, British subjects, residents of Montreal for at least three years, or sometime residents of Montreal for three years, and of the province for seven years, and holders of at least four shares each, were to be annually elected by such shareholders as were British subjects. Nine of the directors, including the President and Vice-President, were to be re-elected to the Board each year. The directors were forbidden to act as private bankers during their term of office, were to appoint the officers necessary for the bank, and to require of them bonds adequate to their trust. They were to receive no salary except by a vote of the shareholders in general meeting, to declare half-yearly dividends out of the profits of the bank, but never to encroach upon its capital, to keep a book for the registry of transfers of stock, to have the right to inspect the books, correspondence and funds of the corporation, and to present to the annual general meetings of the stockholders, exact and particular statements of the

Debts due to and by the bank,
Amount of bank notes in circulation,
Amount of probably bad or doubtful debts,
Surplus or profit, if any remaining, after deduction of losses and provision for dividends.

The directors, further, were to be liable for the excess in their natural capacities (*i. e.* individually and jointly), as well to the stockholders as to the holders of bank notes, in case the debts of the corporation by bond, bill or note, or any contract whatsoever, should exceed treble the amount of the capital stock actually paid in, over and above a sum equal to such money as might be deposited with the bank for safe-keeping. But individual directors in opposition might exonerate themselves from this liability by publishing within eight days from the time of the illegal transaction, a statement thereof and their protest against it.

The stock of £250,000 was divided into 5,000 shares of £50 each. The shareholders were to vote at all meetings in the following proportions to stock owned:

for 1-2 shares the holder had 1 vote,
" each 2 " from 3-10 shares, inclusive, 1 vote,
" " 4 " " 11-30 " " 1 "
" " 6 " " 31-60 " " 1 "
" " 8 " " 61-100 " " 1 "

The holders of 10 shares would thus have 5 votes, of 30, 10; of 60, 15; of 100, 20 votes. No shareholder was to have more than twenty votes. Proxies for absent shareholders were permitted. This voting scale, designed to reduce the influence of large shareholders in the directorate, was adopted in all the charters granted by Lower Canada. After the first election of directors a share was not to entitle the holder to vote unless held for three months prior to the meeting. Fifty shareholders, having not less than 150 shares, might call a special meeting of shareholders, at which a majority might suspend or remove directors guilty of malfeasance. Transfers of stock were not to be valid and effectual unless registered at the office of the bank, nor until the transferor should have discharged all debts by him then due to the bank which might exceed the remaining stock belonging to him. Fractional shares were not transferable. Shares were made personal property and liable to *bona fide* creditors for debt. They might be attached and sold under a writ of attachment and execution served upon the cashier of the bank. Failure to pay the instalments on the shares as they became due involved a penalty in favor of the bank of 5 per cent. on the amount of the delinquent's stock, as well as upon his dividends due at the time, and those accruing before his payment of the instalment. But the shareholders were exempt from individual liability for the debts of the bank, even when these exceeded thrice the capital stock paid in plus the specie deposited for safe-keeping. The shareholders, therefore, were incorporated with limited liability, and enjoyed the extensive privilege of a liability limited, not to double the amount of their subscriptions, but merely to the amount of their subscribed shares.

The Corporation thus created was empowered :

to hold real estate to the value of £1,000 yearly and no more,

to sue and be sued in the name of the President, Directors and Company of the Bank of Montreal,

to issue promissory notes intended to circulate as money and payable on demand in gold and silver coin current by the laws of the Province,

to receive deposits and to deal (*a*) in bills of exchange, (*b*) in discounting notes of hand and promissory notes and to receive the discount at the time of negotiating, (*c*) in gold and silver coin and bullion, and (*d*) in the sale of stock pledged for money lent and not redeemed,

to take and hold mortgages and *hypothèques* on real property for debts contracted to it in the ordinary course of its dealings, but on no account to lend on land, mortgage or *hypothèque*, nor to purchase them on any pretext except as here permitted.

Obligations, bonds and bills of the bank, whether obligatory or of credit, under its common seal, signed by the President or Vice-President, and countersigned by a Cashier, were assignable by endorsement of the person to whom they were made, any law, custom or usage to the contrary notwithstanding. And notes or bills, promising the payment of money to any person or persons, his, her or their order, issued by the order of the bank, and similarly signed, though not under seal, were to be binding and obligatory and assignable and negotiable, by blank or other endorsement, "in like manner," the charter reads, "as foreign bills of exchange now are." Bills payable to bearer were assignable by delivery only. These details, however, are but incidental to questions of banking; they belong rather to the law of commercial paper in which, at that time, the Legislature was obliged to establish some new precedents.

The other restrictions upon the bank were very few. The prohibition of loans upon land and mortgage has been cited; so too the limit upon the real estate which might be owned by the bank. It was forbidden to engage in business other than that specified in the grant of powers, *i. e.*, the ordinary banking transactions. It might not demand or receive more than the lawful interest of six per cent. per annum in any of its dealings. The bank's total debts were not to exceed treble the amount ot the capital stock actually paid in, plus a sum equal to moneys deposited with it for safe keeping. It might not raise loans ot money or increase its capital, and upon pain of the forfeiture ot its charter the bank was forbidden to loan money to a foreign state. No penalty whatever was attached to the other prohibitions, save the individual liability of directors in case the aggregate debts of the bank exceeded thrice the paid up capital stock.

"For the better security of the public," the Government, or either branch of the Provincial Parliament, was empowered from time to time to require from the bank statements, under oath, ot the capital stock, debts due to the bank, moneys deposited in it and notes in circulation. On the other hand, the Legislature provided, in the bank's behalf, extraordinary penalties,

(*a*) against forgery of the seal or bonds or bills of the bank, or knowingly passing forgeries, viz., from six months' to six years' imprisonment at hard labor, or public whipping, or standing in the pillory, or one or more of the punishments at the discretion of the Court:

(*b*) against making or engraving plates or tools for counterfeiting the bills, notes or undertakings of the bank, or having in one's possession plates, paper, presses or tools, with the intention of so counterfeiting, viz., death as a felon, without benefit of clergy.

The rights of the King and other bodies corporate and politic were saved by Sec. xvii. In Sec. xxi, the duration of the Act is limited to 1st June, 1831, and it is further provided "that if, before the expiration of that period, it shall, at any time, be found expedient to establish a Provincial Bank in this Province, and that the same be so established by an Act of the Legislature, the corporation of the Bank of Montreal shall, from and after the expiration of seven years from the passing of such Act, be dissolved."

The Quebec Bank was incorporated with a capital stock limited to £75,000 currency, in 3,000 shares of £25 each, all to be paid up within nine years; the Bank of Canada, with a stock of £200,000, in 4,000 shares of £50 each. In other respects, the charters are substantially similar to that of the Bank of Montreal.

§ 3.—CHARACTERISTICS OF THE EARLY BANKING SYSTEM

From the preceding account it may be seen how simple, in many ways how lax, were the charters under which incorporated banks first operated in Lower Canada. The shareholders were liable only for the amount of their subscriptions to the stock. There was no limit to the note issue other than the provision restricting the aggregate of debts. There was no process whereby to establish the payment in specie of the capital stock. There was nothing to prohibit loans upon the security of the bank's stock, or to prevent the capital, once paid in, from being loaned out bodily to the directors. The publication of frequent and periodical statements of the condition of the banks was not required, nor, except in the case of loans to a foreign state, did the charters enforce by any penalty the prohibitions and restrictions that were laid down.

It must be remembered, however, that the several charters were based upon articles of agreement drawn up by the parties petitioning for incorporation; that Canadians in 1820 had had little cause for inquiring either into the theory of banking or the law which should govern banks. Any advantage in knowledge of this sort doubtless belonged to those who first entered the business. In drafting the articles so as best to further their profit, they naturally omitted many restrictions which, afterwards, and from a public standpoint, were found to be desirable. Either through ignorance or carelessness, the Legislature of 1820-21 failed to fill up the gaps. But to criticize their action at this point will merely involve repetition. The whole subsequent history of Canadian banking legislation is a criticism upon these early charters, and a criticism derived, not *à priori*, but from experience.

In their constitution and variety of function, in the simplicity of the law regulating them, the first Canadian banks more closely resemble the chartered banks of Scotland than any similar institutions then in existence. The likeness is due to more than the reliance which Canada has usually placed upon British precedents in matters as yet untreated in her own law. It must be explained, in large part, by the number of Scotchmen interested in these early banks.[1] Having brought from their native land the knowledge of such institutions, they sought in the colonies to extend and to perpetuate for the farmer and merchant the benefits and stimulus of a system the worth of which Scotland's prosperity could abundantly prove.

That the early charters embodied many of the more essential principles of Canadian banking and Canadian banking law will be recognized as we trace the later growth. One such principle is the issue of notes against the general assets of the bank, or in different phrase, on the general credit of the Bank ; another, the requirement of a large capital foundation, both to strengthen the credit of the bank by a heavy guarantee, and to provide sufficient funds for its operations. A third is the plan of granting each new bank a separate charter, a method by which some assurance may be had that the incorporated are worthy of their privileges. Again, a fourth is the principle of accountability to the Government, destined to find, under the Dominion laws, complete and frequent expression in the requirement of a monthly return to the Minister of Finance.

The banks themselves soon introduced some of the more fundamental features of Scotch banking. The Bank of Canada placed an agent at Kingston, in Upper Canada.[2] The Bank of Montreal established an office of discount and deposit at Quebec, and employed one agent at Kingston, and another, for the negotiation of sterling exchange, in the city of New York.[1] The several banks were accustomed to receive in payment the notes of their competitors and other demands upon them, exchange these against claims on themselves and exact the payment of balances in specie as often as once a week.[2] Thus was begun the practice of branch banking, one of the most useful features of the Canadian system to the public no less than to the banks, and the conduct of exchanges between the banks. By the latter Canadians have secured frequent and rigid tests of the solvency of the participants and an efficient limitation of the note issue to its natural volume.

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[1] Among the one hundred and forty odd charter members of the Bank of Montreal there were at least ninety Scotch names. Of the eighty-nine incorporated as the Quebec Bank, no less than thirty were Scotch. Statutes *ut supra*.

[2] Journal, L. C., 1826, Appendix K.

§ 4.—ENVIRONMENT OF THE BANKS

To depict the condition of the country in which the persistent enterprise of the British colonists had at last secured the new banking institutions, is a task for the economic historian rather than for these pages. He may describe in detail its commerce, and mark how far had proceeded its development in agriculture and manufactures. But whatever else may be told, it is certain, at least, that from 1820 to 1830, the Province of Lower Canada was not far advanced. In commercial activity and general economic development it was much inferior to the State of New York on its southwestern border, and the comparison with Ohio in the later years of the decade would have been distinctly unfavorable. It had suffered from commercial restrictions, from the simplicity, ignorance and fixed habits of the French *habitants*, from its severe climate and from the checks imposed by an absorbing political strife. The cause of the last was the race question, the deep seated enmity between the British immigrants and the descendants of the conquered French. That enmity was embittered by the ascendancy which unjust favoritism of the Royal Governors had helped to give the British in the government and the profession of law, and which "their own superior energy, skill and capital, secured to them in every branch of industry." Continuing, in his report of 1839, Lord Durham remarked that "they (the English) have developed the resources of the country, they have constructed or improved its means of communication, they have created its foreign commerce. The entire wholesale and a large portion of the retail trade of the province, together with the most profitable and flourishing farms, are in the hands of a numerical minority of the population."[1]

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[1] Journal, L. C., 1830, Appendix K.

[2] Journal, L. C., 1829, Appendix Hh., Resolve of the Board of the Bank of Montreal, 28th January, 1820.

The chief export trade of the city of Quebec was in timber, that of Montreal, in furs. Ginseng, potash and grain came next in importance. The imports consisted mainly of dry goods, hardware, spirits, sugar and such necessary commodities as the colonists were not in a position to produce for themselves. The total discounts of the banks, exclusive of the Bank of Canada, which did not report to the Legislature in 1830, were as follows:

Year	Quebec Bank[2]	Bank of Montreal[3]
1821		£ 699,969
1822		1,120,649
1823	£221,252	1,173,467
1824	319,948	1,705,163
1825	444,141	1,851,559
1826	456,538	1,354,024
1827	438,134	1,174,971
1828	430,094	1,377,483
1829	484,611	1,559,683
1830	526,870	

The colony was extremely dependent upon the mother country, and when crises or commercial disturbances occurred in England, Canada suffered sorely. A striking indication of this dependence is the fact that for two years after the disastrous English collapse of 1825 the Bank of Montreal was obliged to pass its dividends, owing to losses on merchants' exchange incurred in the panic year.[4]

§ 5.—PRACTICE OF THE BANKS

In exchange the Bank of Montreal was the largest dealer, though the Bank of Canada joined in the business of buying and selling merchants' exchange and the commissariat bills of the Government, and of furnishing, when required, their own drafts upon London.[1] The former bank employed its New York agents for operations in the American market, frequently more favorable, in matters of sterling exchange, than that of Lower Canada. It also remitted bills direct to England against its own imports of specie, colonial imports of goods or adverse balances otherwise incurred.[2]

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[1] Report on the Affairs of British North America, from the EARL OF DURHAM, Her Majesty's High Commissioner, etc., Montreal, 1839, pp. 14 and 19.

[2] Journal, L. C., 1831, Appendix M.

[3] Journal, L. C., 1830, Appendix N.

[4] Journal, L. C., 1829, Appendix HH.

I have previously noticed the appearance in Canadian practice of the vital features of branch banking and a system of frequent exchanges and note redemptions conducted by the banks themselves. The plan of using New York as a market for sterling bills, a source for the supply of specie and a centre for the employment at call of portions of the bank's reserve funds, has been followed by the greater banks since its introduction. An idea of the extent, at least, of the business carried on by the three banks can best be conveyed by the following returns to the Legislature for 1824-1826, 1829-1831 :

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[1] Journal, L. C., 1823-24, p. 284.

[2] For example the Bank of Montreal in its exchange business in

	1827	1828	1829
Bought of the Government	£47,000	£36,900	£145,000
" " Private Bills	18,729	44,367	60,610
Drew of its own Bills	40,951	62,472	100,581
Sold of its own in the United States	16,000	42,200	58,800
" the Government Bills	32,100	17,500	111,000

The current rate of exchange on gold in those years ranged from 2 to 8 per cent. premium. Journal, L. C., 1830, Appendix N.

	Capital Stock Paid in			Debts due to the Bank			Deposits			Notes in Circulation			Cash in Hand		
	1824[1]	1825[2]	1826[3]	1824	1825	1826	1824	1825	1826	1824	1825	1826	1824	1825	1826
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Quebec Bank, Jan. 13, Feb. 1, Feb. 6	51377	53262	59127	91770	104919	111523	26965	45824	33306	25565	28427	36416	16043	23684	20693
Montreal Bank, Jan. 8, Feb. 6, Jan. 31.	187500	187500	187500	309472	375518	371334	96809	105518	142555	92727	137580	133005	102303	65109	99511
Bank of Canada. Jan. 7, Feb. 10, Feb. 1	92825	92825	92825	128121	104828	111658	11652	295	614	39206	11447	24127	20683	3807	9308
Total..........	331702	333587	339452	529363	585265	594515	135426	151637	176475	167498	177454	193548	139029	92600	129512

	1828[4]	1830[5]	1831[6]	1828	1830	1831	1828	1830	1831	1828	1830	1831	1828	1830	1831
	£	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Quebec Bank, Dec. 2, Feb. 17, Feb. 9.	64645	67375	74712	133316	142039	160201	32568	51674	47134	44328	38713	47637	14710	23232	16199
Montreal Bank, Dec. 1, Feb. 18, Feb. 14.	209835	236862	250000	398092	460744	499001[7]	94785	111643	139285	148039	178552	223558	72808	80164	98513
Bank of Canada, Dec. 3, Feb. 20........	3812[8]	3555[8]	..	5861	5452	..	152	152	..	3505	3487	..	685	565	..

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[1] Journal of the House of Assembly of the Province of Lower Canada, 1823-4, Appendix N.

[2] *Ibid*, 1825, Appendix N.

[3] *Ibid*, 1826, Appendix K.

[4] *Ibid*, 1828.

[5] *Ibid*, 1830, Appendix N.

[6] *Ibid*, 1831, Appendix M.

[7] Also £29,044 due by "New York Agents."

[8] Reported by Wm. Peddie, acting for the President and Directors of the Bank of Canada. The statement of this Bank on Feb. 9, 1827, was:

Capital Stock	£30,325
Debts due to Bank	38,450
Deposits	385
Circulation	8,432
Cash	2,843

Vide Journal L. C., 1827, Sec. 3, Appendix E. It will be seen that this bank was already in liquidation.

Comparing these figures with the report of aggregate discounts on a preceding page, it will be seen that for the Quebec Bank the total discounts were from 3½ to 4¼ times, for the Bank of Montreal from 3¾ to 5½ times, the debts due to the banks respectively near January of each year. As the debts due undoubtedly included balances for which other banks were liable, the multiples just calculated should be increased somewhat, justly to represent the frequency with which the banks' loanable funds were turned over. After making this correction it must be concluded that, on the whole, the two banks which survived had little of their capital locked up in overdue loans, and were making their advances upon short-time paper. Contemporary evidence confirms the conclusion.[1]

That the directors should be familiar with mercantile credit, the members of the board were generally merchants, and naturally they were not precluded from the advantages of bank credits.[2] The statement in the note below shows that directly or indirectly the directors both of the Quebec and Montreal Banks were liable for over a third of the debts due to each respectively in the winter of 1830-31. In 1834 the proportion of directors' liabilities to total discounts was £47,426 to £119,051 for the Quebec Bank and £169,121 to £579,729 for the Bank of

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[1] A petition to the Legislature of 1829, attacking the Bank of Montreal, complains of "its resolution not to discount any bill for, or make any advances to, persons not directly engaged in trade; a rule which, while it cuts the bank itself off from a lucrative and secure branch of trade, deprives the public of those advantages which in countries where the banking system is better understood, are considered as important to the agricultural, professional and general interest as to that of the mercantile part of the community, and displays the narrow, mistaken and selfish views of those who cannot drop the trades when they assume to be bank directors." Journal, L.C., 1829, p. 354.

[2] On 5th February, 1831, the Quebec Bank reported discounts to Directors or money loaned or for which they are security as promissors £23,002

Total liabilities of Directors to the bank as Promissors	£20,150
As Endorsers	45,713
As Security for officers	1,270
Total	£67,133
Debts due to the bank 9th Feb., 1831	£160,201

The Bank of Montreal reported for the 16th Nov., 1830:

	Discounts or Loans to Directors.	Discounts for others, the Directors being liable.	Discounts on Bills of Exchange.	Total.
As Individuals	£ 4,269	£ 241		£ 4,509
As Partners	116,204	53,663	£6,666	176,533
				£181,042
Total debts due to the bank Feb. 14th, 1831				499,001

Journal L. C., 1831, Appendix M.

Montreal.[1] The large share which went to satisfy the directors' demand for discounts is more easily justified when one remembers the comparative wealth of these persons and the importance of their firms among the commercial houses of the city. Further, the rules adopted by the Board to govern discounts were by no means careless or imprudent. Discounting days were held twice a week. Questions of discounting were decided by ballot. No advances for over £10,000 were allowed by the Bank of Montreal without the unanimous consent of the Board, and no discounts were granted without two responsible names on the paper nor for more than ninety days. Two votes in the negative, or one if there were but five members present, were sufficient to reject a note or a proffered bill of exchange.[2]

In other respects the returns are of use as showing the importance which deposits had already acquired for the Lower Canada banks, the modest limits within which the circulation was confined, and the large reserves or cash in hand, which the banks held against their demand liabilities. The proportions of cash to circulation and deposits were for the

	in 1824	1825	1826	1828	1830	1831
Quebec Bank................	28 per cent.	25	29	19	25	17
Montreal Bank	54 " "	26	34	29	27	27

These ratios, though not averages, may be presumed to be fairly representative. Their height can be accounted for by the situation of the banks, remote from the bullion centres either of America or Europe, and the consequent necessity of a large specie store to provide against possible demands.

Beginning with 1825, there is to be noticed a rapid decline in the business of the Bank of Canada. The fall in its deposits from £11,000 in 1824 to £295 in 1825 seems to have decided the proprietors to wind up the bank. It nowhere appears that the bank defaulted in any of its obligations, but the management, undoubtedly, entertained rather faulty notions as to the privileges and duties of a bank. As early as 1820 they had incurred discredit by refusing to pay in dollars, and offering to cash the notes and cheques presented for payment by the other banks in half crowns, small and much worn silver pieces, which, though current at an excessive rating by the law of the province, were not available for export. On the 28th January, 1820, the Bank of Montreal resolved not to accept cheques upon the sister bank in the future, and in April the directors passed a similar resolution respecting its notes.[1] It will be observed that the marked change in the account of the Bank of Canada came in the panic year. Then the capital stock which was £92,825 between 1824 and 1826, was reduced to £30,025 in 1827, and by 1830 to £3,555. In 1831 the liquidator reported to the House of Assembly that the bank's charter having expired, all business was discontinued.[2]

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[1] Journal, L. C., 1834, Appendix S.

[2] Journal, L. C., 1829, Appendix Hh.

Erratic ideas upon the duties and powers of banks were not confined to the members of the Bank of Canada. The merchants of Montreal pray, in 1830, that if the Legislature renew the charter of the Montreal Bank, "care should be taken to protect the interest of the public by restricting the said bank from dealing in bills of exchange, and from issuing bills in small sums."[3] The first item of the complaint was of long standing, having been emphasized in 1823, by the charge that when the bank was buying foreign bills it ceased to discount. The chartered bank, of course, was both a powerful and an unwelcome competitor to the old private dealers in exchange. For the second point, the Legislative documents afford no other proof than that all the banks, as they continued to do until 1870, issued circulating notes for sums as low as one dollar or five shillings currency.

A branch had been established in Quebec by the Bank of Montreal with an allotment of £30,000 capital, and £60,000 notes payable in that city. In the early years of the decade the Quebec Bank displayed considerable dissatisfaction with this proceeding, animated, apparently, by the belief that incorporation was intended to establish at Quebec a local monopoly of banking for its own benefit. Some feeling against the branch still existed in 1829. In a petition of merchants and others attacking the mother bank on the general ground that it had not acted in the public interest, there are found among other specific charges, the assertions that the Bank of Montreal had no right to establish a branch at Quebec, that it refused to redeem its own notes at that city when they were not stamped "payable at Quebec," and that the Quebec office bought up at a discount the notes issued from Montreal. This was the same document in which was criticised the practice of the bank to loan chiefly on paper arising from commercial transactions.

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[1] *Ibid.*

[2] Journal, L. C., 1831, p. 18.

[3] Journal, L.C., 1830, page 123.

The charges were serious enough for investigation. But the committee who tried the case acquitted the Montreal Bank of the monstrous anomaly of trading in its own notes. They found in respect to the other charges, (*a*) that the office at Quebec had been highly advantageous to commercial and agricultural interests, particularly to those of the city and district of Quebec, having caused a desirable competition between the two monied institutions, and that the affairs of the bank had been conducted on fair and honorable principles; (*b*) the charter did not prohibit the establishment of agencies; (*c*) to redeem notes at the branches was not the practice of the Bank of England, the Bank of Scotland, or the Bank of the United States; (*d*) the Quebec office had not refused to redeem its own issues; (*e*) the bank had not traded in deteriorated coin, but had discountenanced the practice at considerable expense; (*f*) the bank had taken every prudent measure to stop the counterfeiting of its notes.

§ 6.—FURTHER LEGISLATION

The practical monopoly of issue was conferred upon the chartered banks by an Act of 1830. (10 & 11 Geo. IV., cap. 5, sec. ii.) On penalty of forfeiture of the amount involved, it forbade that any note payable to bearer or under the value of five dollars should be offered or given in payment, except such notes as might be issued by banks incorporated by law in Lower Canada.

In the same year, the charter of the Bank of Montreal was continued to the 1st June, 1837, and amended in some important respects. (10 & 11 Geo. IV., cap. 6.)[1] (*a*) It had been found expedient that more explicit statements should be required.

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[1] Provincial Statutes of Lower Canada, 1830, p. 571.

A new form was adopted, the changes being such as to show among other items the state of the balance sheet of the banks reporting. (*b*) The total amount of notes in circulation for less than £1 5s. ($5) currency, was limited to one-fifth of the capital stock paid in, and notes for less than 5s. were prohibited. The Legislature reserved the power to suppress or further to limit the circulation of notes under five dollars, and added the penalty of forfeiture of charter for the violation of either of the restrictions already imposed. (*c*) In order to preserve a competition in banking, it was provided that the charter should determine in ten months from the expiry of the charter of the Quebec Bank, unless that were likewise continued, or some other bank incorporated in Lower Canada.

The next year, however, the Quebec Bank secured a renewal of its charter to the 1st May, 1836 (and by a subsequent Act, to the 1st June, 1837), with amendments similar to those imposed upon the Bank of Montreal.[1] (1 Wm. IV., cap. 13.) It was permitted to add to its capital stock not more than £150,000, the whole to be called up within five years, in instalments of not less than 10 per cent. per annum.

On the 5th February, 1831, a petition of Montreal merchants praying for the incorporation of a new bank in their city, was presented to the House of Assembly. There was but one bank there, they recited, "whose capital is altogether inadequate to the circulation of the valuable articles of import and export which its geographic position naturally brings to it, and which has the effect of retarding the development of all the commercial and agricultural resources of which it is susceptible. Though as yet no improper influence may have resulted from a banking monopoly in Montreal, the most effectual preventive of such an evil is the admission of reasonable competition with its counteracting influence."[2] In compliance with their prayer the Legislature passed an Act to incorporate the president, directors and company of the City Bank. On the question raised by this single successful proposal, between 1821 and 1841, to establish a new bank in Lower Canada, twenty-one

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[1] Provincial Statutes of Lower Canada, 1831, p. 102.

[2] *Journal*, L.C., 1831, p. 88.

French members of the Assembly were against the measure, and a mixed party of twenty-seven French and English for it.[1] The ballot is good confirmation of Lord Durham's remarks upon the French prejudice against banks.[2]

Before the charter of the City Bank reached the Imperial Government, reforms had been effected in the English law against forgery. After 1832 it was not a capital crime, and the charter from Lower Canada failed of the Royal assent because of its severe and inconsistent penalties against forgery. With a change in this regard the bill was re-enacted in 1833, to continue until the 1st June, 1837, and became law on the 3rd May. (3 Wm. IV., cap. 32.)

The only novel features in this charter were the provisions concerning the first organization of the bank. Those who petitioned for incorporation had not begun a banking business; indeed, in 1833 they had still to secure a capital in order to meet the requirements of the Act. The capital stock was limited to £200,000 in 8,000 shares of £25 each, all of which must have been subscribed and £40,000 paid in, and "held by and in the actual possession of the corporation in gold and silver coin current in this province," before any note or bill might be issued. To raise the capital, subscription books were to be opened after a public notice for four successive weeks. After the amount was subscribed, and a notice published for three weeks, a meeting of the subscribers for the election of directors to serve until the next Monday in June, might be called. Five per cent. of the subscription was to be paid down at the time of subscribing, the remainder in instalments not greater than ten per cent. and on thirty days' or more notice from the directors, the whole capital to be paid in within four years from the passing of the Act.

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[1] *Ibid*, p. 439.

[2] "The English population, an immigrant and enterprising population, looked on the North American provinces as a vast field for speculation and settlement, and in the common spirit of the Anglo-Saxon inhabitants of that continent, regarded it as the chief business of the Government to promote by all possible use of its legislative and administrative powers, the increase of population and the accumulation of property. They wished to form themselves into companies for the establishment of banks and the construction of railroads and canals, and to obtain the power necessary for the completion of such works with funds of their own. * * * * The applications for banks, railroads and canals were laid on one side until some general measure could be adopted with regard to such undertakings, but the general measure thus promised was never passed. In all these decisions of the Assembly, in its discussions and in the apparent motives of its conduct, the English population perceived traces of a desire to repress the influence and success of their race." Report, *ut supra*, p. 19.

The annual meeting of the shareholders was appointed for the first Monday in June. At these meetings were to be elected the eleven directors, five or more being annually re-elected. In other respects the charter of the City Bank presents no substantial difference to the amended charters of the other two banks.

The mention of two more measures will be necessary to complete the sketch of the banking legislation in the old Province of Lower Canada.

The charter of the Bank of Montreal expired on the 1st June, 1837. It was not renewed at the time because of the failure of Parliament to act in the case. The bank continued its business[1] without an incorporation until its old charter was re-enacted for four years by the Special Council, the 4th May, 1838. The Quebec Bank and the City Bank met the same difficulty by securing Royal Letters Patent,[2] by which their corporate existence was continued for one year after the termination of the first session of the Provincial Parliament that should be held after the 31st May, 1837.[3] The conditions of these charters were practically those under which the banks had acted since 1833. The years 1837, 1838 and 1839 were marked by great disturbances in the Lower Province and the suspension of the constitutional government established in 1792. In its place was a temporary government known as the "Special Council of the Province of Lower Canada."[4] This body extended the charter of the Quebec Bank until the 1st Nov., 1842, continuing also the Royal permission to add £150,000 to its capital stock.[5] This is the first of the measures referred to. The second is "an ordinance to regulate private banking and the circulation of the notes of private bankers," *i.e.*, notes not of any bank chartered, authorized or recognized by the Legislature of Lower Canada, or competent authority in any part of Her Majesty's dominions, or in the United States. The law forbade the unlicensed private issue of notes under £5 currency, on a penalty of three times the nominal value of the notes, or of £5 currency for each offence if the notes should be for less than 5 shillings. Licenses were to be granted under the authority of the ordinance for one year, and published in two newspapers in each of the cities of Montreal and Quebec. Licensed banks were obliged to transmit statements of their affairs to the Government or forfeit their licenses. Notes for less than $5 were not to exceed one-fifth of the bank's capital. Severe penalties were also imposed for giving or receiving in payment such notes as were denounced by the Act.

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[1] Ordinances of the Special Council of Lower Canada, 1838, p. 50, 1 Vic., cap. xiv.

[2] 7 Wm. IV. assented to 31st May, 1837.

[3] The Revised Acts and Ordinances of Lower Canada, 1845, p. 320.

[4] Created by the Imperial Act of 1 Vic., passed 10th July, 1838.

[5] Acts and Ordinances, *ut supra*: "An ordinance to prolong the term of the Royal Charter incorporating the Quebec Bank, and to make further provision for the government and management of the said Bank." 2 Vic. (3), cap. xxiv.

From all internal evidence this ordinance was a temporary expedient for the suppression of the numerous irresponsible issues of promissory notes for circulation that are wont to appear in situations such as then existed in Canada. The only issues that could have come within the purview of the ordinance were of slight importance. None of the concerns thus subjected to regulation and supervision survived until 1841.

Both the ordinances described were products of a time of excitement, agitation, disorder and violence, succeeded by the rule of martial law. But the Rebellion of 1837, the second outbreak of insurrection in the following year, the mission of the Earl of Durham and the attempted solution of the race and political problem by the union of the Canadas, events which absorbed the attention of the colonists between 1837 and 1840, cannot receive more than mention here. The instability and prostration caused by party feuds, by civil war, military rule and constitutional change, involve for the commerce and banking of a country consequences which, though overshadowed by political events, are often costly and significant. But any such results experienced in Lower Canada, the effects of the financial crisis of 1837, and the suspension of specie payments induced by the commercial and political confusion, can best be discussed in connection with the similar difficulties encountered in the same years by the banks of the Upper Province.

Before taking up the early banking in Upper Canada, it is necessary to notice the appearance in Montreal of a bank which has ever since retained the unique characteristics of its constitution. The French banking firm of Viger, De Witt et Cie., otherwise known as *La Banque du Peuple*, began its business in 1835. It was a co-partnership *in commendam* or *en commandite*, composed of some twelve principal partners or members and an indefinite number of *commanditaires* or partners *in commendam*. Of the principal partners was required a considerable contribution of capital in each case ; in them exclusively was vested the management of the bank, and against them ran a joint and several liability for all the debts of the bank. The *commanditaires* had no voice in the management of the bank, were exempt from any liability beyond the amount of their subscribed stock, and were entitled to dividends on their contributions of paid-in capital at the same rate as the principal partners. Concerning this bank Lord Durham remarked : "The establishment of the Banque du Peuple by French capitalists, is an event which may be regarded as a satisfactory indication of an awakening commercial energy among the French, and it is, therefore, very much to be regretted that the success of the new enterprise was uniformly promoted by direct and illiberal appeals to the national feelings of the race."[1]

Statements of the chartered banks of Lower Canada are appended for 1831 and 1834, the last statement published before the Rebellion that I have been able to procure.

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[1] Report, p. 15.

CHARTERED BANKS OF LOWER CANADA; Miscellaneous Statements for 1831, 1834, 1835 and 1837.

	Quebec Bank 5th Feb. 1831 *a*	Bank of Montreal 1 Feb. 1831 *a*	Total 1831	Quebec Bank 17 Jan. 1834 *c*	Bank of Montreal 18 Jan. 1834 *c*	City Bank 15 Jan. 1834 *c*	Total Jan. 1834	Quebec Bank 5 Nov. 1835 *d*	Bank of Montreal 1 June 1837 *d*	City Bank 31 May 1837 *d*
LIABILITIES	£	£	£	£	£	£	£	£	£	£
Capital stock paid-in	74,212	250,000	324,212	75,000	250,000	84,121	409,121	75,000	250,000	200,000
Notes in circulation	47,980	223,558	271,538	46,751	227,439	34,235	308,425	59,384	180,692	104,576
Net profits in hand	3,192	15,066	18,258	9,472	..	1,866	11,338	..	..	..
Unpaid dividends due..........	..	846	846	..	622	..	622	..	..	..
Cash deposited not bearing int ..	37,931	109,353	147 284	44,930	184,882	12,937	242,749	..	234,776	24,594
Cash deposited bearing interest	4,614	..	4,614	..		..	..	..		
Balance due to London or foreign agents on exchange transact's.	..	29,008	29,008	..	6,617	..	6,617	..	..	..
Balance due to other banks	..	19,932	19,932	3,432	16,960	3,583	23,975	..	..	..
Total liabilities...... ...	170,930	647,766	..	179,587	686,524	136,744	1,002,855	..	..	..
ASSETS										
Gold and silver coin and bullion	13,319	98,513	111,832	21,011	73,870	15,244	110,125	12,844	68,811	15,934
Real estate and bank furniture..	1,000	11,291	12,291	2,566	7,500	..	10,066	..	..	..
Notes and cheques of other b'ks.	1,303	9,315	10,618	661	4,688	5,772	11,121	..	..	15,081
Balances due from other banks & foreign agents	4,424	29,644*b*	74,068	3,437	17,002	27,342	47,781	..	..	..
Debts due to the bank—										
Bonds and obligations	24,788	19,035	44,823	32,859	3,835	..	36,694	..	..	..
Bills of exchange.........	..	1,145	1,145	..	13,374	1,213	14,587	..	..	..
Notes discounted	133,525	478,820	612,345	119,051	566,253	87,201	772,505	177,677	686,942	308,131
Total assets	178,359	647,766	..	179,587	686,524	135,744	1,002,855	..	..	..

a Journal, L.C., 1831, Appendix M.
b This was the amount due by New York agents upon exchange transactions.
c Journal, L.C., 1834, Appendix S.
d MARTIN, R. M., History, Statistics and Geography of Upper and Lower Canada, London, 1838, pp. 273, 278.
The footings do not exactly correspond to the exact sum of the items by reason of the omission of shillings and pence.

CHAPTER III

UPPER CANADA, 1817-1839

§ 7.—ESTABLISHMENT OF THE BANK OF UPPER CANADA

THE question of incorporating a bank first came before the House of Assembly of Upper Canada in 1817, the same year, in fact, as the matter was broached to the Legislature of the Lower Province. On the 5th March, the "Memorial of the merchants and others of the town of Kingston" was presented. It showed that the "memorialists, having taken into consideration the great utility and advantage of banks to a commercial people, which has been evinced by the number which have been established in England, and the United States of America since the Revolutionary War, and feeling the benefit which the latter derive from the ready aid afforded them by their banks to carry on their establishments and improvements in their western territory, which, although of a more recent date, is in a more flourishing state than any part of this province, are of opinion that if found so beneficial in those countries they cannot fail of tending to the prosperity of this province. The want of such an establishment was severely felt before the late war, and there is hardly any doubt but that the same inconveniences will very shortly occur, whereas a well regulated bank would obviate all these difficulties by keeping up a circulating paper to meet every public demand." They prayed, therefore, for incorporation as the Bank of Upper Canada, with a capital of £100,000.[1]

The Act of incorporation passed by the Assembly and Legislative Council was reserved by the Lieutenant-Governor for the signification of the Royal pleasure. Assent was granted, but as notice of it arrived too late for promulgation within the period established by the charter for the bank to begin business, a re-enactment was necessary to make the charter available.[1] The inhabitants of Kingston again petitioned in June, 1819. On the 12th July, an "Act to incorporate sundry persons under the style and title of the President, Directors and Company of the Bank of Kingston" became law. (59 Geo. III., cap. 15, U.C.) This charter was forfeited by non-user till the 1st Jan., 1821. The reason of so extended a reference will presently appear.

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[1] Journal of the House of Assembly of the Province of Upper Canada, 1817, p. 106, of the MS. copy in the Library of Parliament, Ottawa, Canada.

In the meantime merchants and residents of the Home District (the site of the present city of Toronto) prayed for incorporation as the Upper Canada Banking Company. They supported their request by reference to the want of a circulating medium before the Army Bills were issued, and to the prospect of a like disadvantage soon becoming oppressive. The charter passed for their benefit was reserved for the Royal pleasure by Sir Peregrine Maitland, 12th July, 1819.[2] As before, the receipt of the Royal assent was much delayed, and on the 5th April, 1821, the House of Assembly adopted the following resolutions:

> "1. RESOLVED, that it is the opinion of this House that the establishment of a Provincial bank, under proper restrictions, would be beneficial to the country, by remedying the great want of specie by securing to ourselves whatever advantages are to be derived from the issue of a paper currency, and by establishing a circulating medium of known security, instead of the paper of private banks, uncontrolled by any charter or legislative provision, and which from being rejected by the Public Receivers, does not answer effectually all the purposes of trade."
>
> "2. RESOLVED, that it is the opinion of this House that a Bill should be brought in for establishing a Provincial bank by the incorporation of such persons as shall become stockholders under the provisions of the Act; the system to be as similar as circumstances will permit to that contained in the Bill formerly passed for establishing a bank at Kingston, except that to insure its going into operation, the amount of stock and deposit, and consequently of paper to be issued, should be reduced."[3]

But the Act to incorporate the Bank of Upper Canada became law by the proclamation of the Royal assent on the 21st April, 1821, and a new Act became unnecessary. (59 Geo. III., cap. 24, U.C.)[4]

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[1] Journal, U. C., *ut supra*, 1819, p. 19.

[2] *Ibid*, p. 419.

[3] Journal of the House of Assembly of the Province of Upper Canada, Kingston, U. C., 1821, p. 196.

[4] Revised Statutes of the Province of Upper Canada, Kingston, 1831, p. 262.

From the foregoing it can be seen with what force, greater even than in Lower Canada, the need of a reform in the currency prompted the establishment of the first bank in the Upper Province. In the moving cause of its origin this institution differed little from the old banks of Amsterdam, Hamburg and Italian cities, the effort to escape the evils of a varied and fluctuating circulating medium being of chief importance in each of these undertakings. In Upper Canada, there were also the need of an instrument of exchange less costly than specie, and a hope, by the introduction of credit organization in some form, to promote the prosperity and advantage of commerce and agriculture. This purpose, apparently so dear to provincial assemblies, was suggested as much by the example of the United States as of the mother country. Of the instances of American influence that we shall have to note this is by no means the last.

But in its constitution, and in the charter restrictions under which it was to act, the Bank of Upper Canada presents few remarkable variations from the Lower Canada banks incorporated in 1821. The first five sections of the Act are chiefly concerned with provision for the conduct of subscription to the bank's capital. The limit set in 1821 was £200,000, divided into shares of £12 10s., of which £50,000 were to be subscribed and £20,000 in specie to be paid in before the bank should begin business. On account of the scarcity of coin, the requirement of specie payment was reduced in 1822, to £10,000. (2 Geo. IV., cap. 7, U.C.) In 1823, the capital limit had been found greater than the circumstances and commerce of the province required. At the request of the bank, it was reduced to £100,000 and "the whole amount of the property, stock and estate," of the bank limited to £100,000. The latter is a curious provision whose only effects must have been to prevent the increase of capital and the accumulation of a reserve fund or rest out of profits.

The important differences, in effect, from the Lower Canada charter we have described, will be found in the following details :

(*a*) The bank was to be established at the seat of government of the province, with express authority, however, to establish branches.

(*b*) Notes under five shillings were forbidden.

(*c*) Four of the fifteen directors were each year ineligible for re-election.

(*d*) Directors absent when the transaction was authorized could avoid the personal liability for the excess of debts of the bank over thrice the paid-in capital stock, plus deposits of money, by immediate notice to the stockholders in general meeting, instead of by published newspaper notice.

(*e*) The bank could lawfully hold only such real estate as was necessary for the convenient transaction of its business, but no limit was imposed on the annual value of such property. The provisions as to land mortgaged to the bank by way of additional security, etc., present no variations.

(*f*) On refusing payment of its bills in specie, the bank was obliged to cease banking operations, on pain of forfeiting its charter, until specie payment should be resumed.

(*g*) An annual return, properly sworn to, was to be made to the Provincial Legislature.

The charter was to remain in force until the 1st June, 1848.

The new bank began its business on the 1st July, 1822. The chronic scarcity of specie in the Province and the Government's power to subscribe for stock have lent color to the story of an unauthorized advance of coin from the military chest, without which the bank would have been unable to start.[1] But the evidence for this has not yet been advanced. The Government did subscribe for the 2,000 shares allotted to it by the charter. When the required capital was reduced in 1823, the Government, thus becoming the owner of a fourth of the entire stock, was authorized to appoint four of the fifteen directors "for the better security of the public interest."[2] Thus situate by law at the seat of Government, and with the Government entitled to share in its management as well as its profits, the Bank of Upper

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[1] *Vide* HAGUE, G., "The Banking System of Canada," in Canadian Economics, Montreal, 1885, p. 226.

[2] 4 Geo. IV., cap. xi.

Canada became both in law and in fact a "Provincial Bank." A practical monopoly of note issue was conferred upon it in 1823 by an Act prohibiting banks not redeeming their notes in specie within the province from carrying on business there. (4 Geo. IV., cap. 13.)

§ 8.—THE "PRETENDED" BANK OF UPPER CANADA AT KINGSTON

It will be remembered that difficulty in securing the required capital caused the charter of the Bank of Kingston to be forfeited for non-user. Nevertheless some ten residents of Kingston clubbed together in 1819, formed an association in direct violation of the law, invited persons to subscribe to the stock, and opened an office in Kingston as the President, Directors and Company of the Bank of Upper Canada.[1] Their own subscriptions they paid chiefly in stock notes, but in one way and another a paid-up capital of about £12,000 was secured.[2] By 1823 the pretended bank had issued notes for £18,997 14s. 3d., and by means of these or of its stock, had become the debtor of a great portion of the inhabitants of the Province.

If rightly conducted, the enterprise might have been profitable, but the management had neither honor nor honesty. They soon attempted to loot the bank. Two directors alone borrowed a sum equal to the paid-in capital. Later, the President and a confederate on the Board of Directors opened a shaving shop for lending the bank's funds to individuals at double interest. This aroused the jealousy of the other directors, and Whitney, the President, was suspended in August, 1822. £8,000 of redeemed notes were lying with the Montreal agent of the bank. Whitney forthwith left for Montreal and arrived before the news of the trouble was come by post from Kingston. He asked the cashier of the Bank of Canada for the parcel of notes and received it, to return to the Kingston bank's cashier. Whitney used the notes for his own purposes. When the quarrel, the abstraction of over £1,000 from the parcel, and the refusal of Whitney to give up the remaining notes, became known in Kingston, a run upon the bank was started. Its small store of specie was soon exhausted. Ignorance only added to the popular alarm, and intensified the demands for payment. Note-kiting or reciprocity in indorsement had been practiced freely by the directors, and renewals granted without discretion. The locked up funds could not be realized upon. About the 23rd September, 1822, the bank failed.[1]

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[1] 4 Geo. IV., cap. xxiii., Preamble.

[2] Journal, U. C., 1825. Appendix B.

The condition of the debts and property on the 6th February, 1823, was as follows:

Stock paid-in:		
Directors	£3,240	
Others	7,896	
		£11,136
Notes unredeemed		18,176
Deposits		900
		£30,212
Less Directors' stock		3,240
Amount to be paid		£26,970
Debts due to the Bank by bond and note		£22,227
Book debts		1,000
Deficiency to be made up by the cashier		5,884
Total assets		£29,111

Instead of enabling the shareholders to enforce debts due to the bank and thus to wind up the concern, the Legislature, in 1823, vested the stock, debts, bonds and property of the bank in the hands of commissioners for the benefit of the creditors. (4 Geo. IV., cap. 22.) The commissioners reported claims existing against the bank the 3rd January, 1825, as £26,698, of which £11,136 were for stock. The assets amounted to £18,718. There was a possibility (not, however, realized) of recovering from the sureties for the bank officials the £5,884 considered as an abstraction from its funds.[2] In the opinion of the commissioners the whole capital would be sunk, and, even then, all claims would not be satisfied. Their forecast was correct. The Legislature tried to remedy the defects of the first Act by measures passed in 1824, 1828, 1829 and 1836. Liquidation dragged along, the commissioners made mistakes, by one of them losing a suit in which a claim for £10,000 was involved, and by the arbitration which debtors might demand under the law of 1829, many claims were reduced to less than a fifth of their original amount.[1] But in 1839 the legal debts due from the former bank had been reduced, by payment or scaling down, to less than £5,000, and, after an unimportant Act of 1841, the matter remained untouched by legislation (4 & 5 Vic., cap. 29, Can.).

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[1] Journal, Legislative Council, U.C., 1823, p. 113; also, Journal, U.C., 1823, pp. 187-201, of the type-written copies in the Legislative Library, Toronto; also, Statement of the affairs of the Bank of Upper Canada at Kingston, taken from authentic documents, Kingston, 1840, pp. 13, *et seq.*

[2] A statement of the affairs of the late pretended Bank of Upper Canada at Kingston, York, 1827, pp. 16, *et seq.*

This first bank failure in Canada, though comparatively small amounts were involved, caused widespread loss. Much grievous injury was inflicted by the extreme delay in liquidation. The better provision was made for the notes issued by the bank, £11,500 having been retired in various ways by 1825.[2] As the worst sufferers were the dupes whose money had been secured for stock and then manipulated by the directors, that extreme suspicion of banks of issue which frauds upon their paper currency made well nigh universal among Americans, was not excited in the minds of Canadians. Thus they were left free to consider more fairly the general question of banks and bank regulation, a fact not without its importance in the subsequent history.

§ 9.—ECONOMIC AND POLITICAL ENVIRONMENT OF THE BANK

The economic conditions in which banking began in Upper Canada receive some notice in the petitions for incorporation. In prosperity and development, *e.g.*, the western territory of the United States is said to be further advanced than the Canadian Province, yet surely no one in 1818 could claim much in these respects for Indiana and Illinois, or Michigan and Ohio. Twenty years later, Lord Durham, reviewing the history of the Province, said with reference to the geographical character of the country: "Its inhabitants scattered along an extensive frontier with very imperfect means of communication and a limited and partial commerce, have apparently no community of interest or opinion." The Province had no great centre with which all the separate parts were connected, nor was there an habitual intercourse between the inhabitants of different sections. Deep seated impediments blocked the way of industrial progress. "A very considerable portion of the Province has neither roads, post offices, mills, schools or churches. The people may raise enough for their own subsistence," the Report continues, "and may even have a rude and comfortless plenty, but they can seldom acquire wealth."[1]

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[1] *Ibid*, p. 2.

[2] Journal, U.C., 1825, Appendix B.

After the depression of 1825 and 1826 in England, the population was suddenly doubled by immigration. The value of all species of property rose and the resources of the province were rapidly, and for the old inhabitants profitably developed.[2] A series of canals, designed to render navigable the whole course of the St. Lawrence, was begun in 1825, the colony contributing lavishly by subsidies and expenditures on its own account. The Welland Canal was completed and the Cornwall Canal far advanced. But the utility of the works was diminished and almost annihilated by the failure of the Lower Province to assist by the construction of such part of the projected system as lay within its borders. Upper Canada incurred in the fifteen years following 1825 a debt of nearly a million pounds sterling. Such an expenditure, added to the other capital invested in the various undertakings, had a powerful effect on the market for labor and for goods. But the only ports of entry for Upper Canada were in the Lower Province. Navigation on the St. Lawrence opened several weeks later than goods could be obtained through the United States, if the use of New York as a port of entry had been allowed. Merchants, therefore, were obliged to submit to injurious delays in their business, or, by importing in the autumn, have their capital lying dead for six months. The mischief was aggravated by a monopoly of freight forwarding existing between the River St. Lawrence and the Rideau Canal.[1]

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[1] Lord Durham's Report, p. 70.

[2] *Ibid*, p. 59.

The imperial regulations with respect to trade were another impediment; goods that the colony most needed were heavily taxed, while the staples of the United States, the same as its own products, were duty free. The more settled districts had the stronger representation in the assembly, and it is said that members, in disposing of the funds voted for roads and like improvements, were chiefly intent by this means to strengthen their influence with their constituents. The waste lands of the Province had been cut up and close settlement obstructed by the reservation, due to Mr. Pitt, of an eighth of every grant "for the support of a Protestant clergy."[2] Many of the best tracts, lying on the natural lines of settlement, were refused by the authorities to intending purchasers and given over to a land jobbing company which held them waste while speculating for a rise.[3] Politics in the Province were violent and bitter, the struggle of a Reform party against the Conservatives. At the centre and head of the Conservatives was the "Family Compact," a Junto armed with official patronage and influence, strengthened by the control of the Crown Lands, and intrenched in Church, Bar, Bench and Government.[4] Furthermore, the revenues of the Province were deficient, scarcely meeting the interest on the public debt. Work upon the canals eventually lagged for want of the funds, and the means of internal improvement became available only by a system of special assessments.[5]

In the political struggle, the Bank of Upper Canada cast its lot with the Government and the Family Compact. It had the custody of the moneys of the provincial treasury; it was the depository of the Welland Canal Company. It was accused of distributing its patronage according to the partisan activity, rather than the business ability of candidates for position, and of discriminating, when it granted credit, in favor of the dominant party.[1] There is reason to believe that, though preferred by a partisan committee, these charges contained a large measure of truth.[2] The shareholders of the bank were, to a great extent, members of the compact. The bank thus had some influence upon legislation. In 1830 and 1831, the Legislative Council rejected a bill proposing to incorporate a competitor to the bank. And again, in 1833, it rejected two charters passed by the Assembly.[3]

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[1] *Ibid*, p. 71.

[2] GOLDWIN SMITH, "Canada and the Canadian Question," p. 112.

[3] Journal, U. C., 1835, Appendix, Vol. I., First Report of the Select Committee on Trade and Commerce.

[4] Lord Durham's Report, p. 56.

[5] *Ibid*, p. 58.

§ 10.—A PERIOD OF EXPANSION, 1830-37

Some indications of a change in the Upper Canada conditions have been given in the remarks designed to supply an idea, necessarily inadequate, of the economic situation in which the bank first carried on its business. In 1830 and 1831 the prosperity of the province was appreciably enhanced.[4] Towards this, without doubt, the immigration of 1826 and 1827 had contributed, as well as the expenditures on public works and the stimulus to trade and industry which they afforded. But the rise of land values, the more active operations in real estate, the unwonted readiness to engage in other transactions, and the intense demand for capital to assist the extension of trade and agriculture, point to the conclusion that the change in Canada was, to no slight extent, a part of the upward movement then affecting the whole North American Continent.

One effect of the new prosperity was the creation of more banking capital. The process was furthered by borrowers for the increased facility in obtaining loans at the legal rate of interest, by investors, for the large dividends derived from bank shares. The paid-in capital of the Bank of Upper Canada, reported at the modest sum of £10,640 in 1823, had risen to

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[1] Journal, U. C., 1835, Vol. I., p. 82, Seventh Report of the Committee on Grievances, Appendix xi.

[2] A select committee on the subject of banking, quite as partisan, but on the other side, declared, however, in 1834, that "there was never the slightest foundation for the insinuation that the Bank of Upper Canada was a dangerous engine in the hands of the Government, against either the Bank or the Government. Journal, U. C., 1833-34, Appendix, p. 166. But *cf.* LORD DURHAM'S Report, p. 56.

[3] Journal, U. C., 1835, *ut supra*, p. 2.

[4] Journal, U. C., 1833-34, Appendix, p. 162, Testimony of BENJ. THORNE.

£54,037 in 1826 and £100,000 in 1830. At various dates the bank reported to the Legislature as follows :

	15th Dec.[1] 1826	2nd Feb.[2] 1828	3rd March[3] 1829	2nd Feb.[4] 1830	1st Jan.[5] 1831
	£	£	£	£	£
Funds and property..	38,391	36,765	47,271	26,412 6,571	15,618 6,715
Capital stock paid in	54,039	72,067	72,410	77,462	100,000
Debts due to the bank	107,598	171,869	180,854	214,045	260,557
Debts due by the bank	19,484	32,376	35,102	38,303	33,621
Bank notes in circulation	87,339	122,858	140,488	156,296	187,039
Specie in vault	19,066	21,177	23,190	33,134	42,664

It had paid regular dividends at 8 per cent. per annum, amounting at the close of 1831 to £41,669, and two bonuses of 6 per cent. In all it had distributed some £51,000 to its shareholders.[6] In the session of 1831-32 the Legislature authorized the addition of £100,000 to its capital in shares of £12 10s. each, and by the same Act forbade the bank to loan on its own stock on pain of forfeiting its charter. (2 Wm. IV, cap. 10.) An Act incorporating the Commercial Bank of the Midland District, rejected by the Legislative Council the two preceding years, was passed in the same session. The principal office of the Commercial Bank was to be at Kingston, its capital stock £100,000. Returns were henceforth required of both the banks in somewhat greater detail, and in the form of balance sheets ; save in this important respect the new and amended charter presented no essential differences to the old one.

When books were opened to receive subscriptions to the new and additional capital thus authorized, the public displayed the utmost eagerness to obtain shares. The demand is the less surprising when one recalls the high profits paid by the Bank of Upper Canada without the assistance of a rest or reserve fund. The books for subscription to its 8,000 shares of additional stock were closed after a single day at York, the head office, and as soon as the mail could reach the other offices. No person was permitted, in the first instance, to subscribe for more than eighty shares. Yet in so short a time subscriptions were received for 25,679 shares, or £320,987 10s.[1] In 1832 it was able to pay out of the premium on the new stock, a bonus of 18 per cent. to the holders of the original shares, and still earn its regular dividend of 8 per cent.[2] So far as the anxiety of the public to secure stock was concerned, the experience of the Commercial Bank was precisely the same.

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[1] Journal, U. C., 1826-7, p. 13.
[2] " " " 1828, p. 61.
" " " 1829, p. 67.
[4] " " " 1830, p.—
[5] " " " 1831, p. 31.

[6] Journal of the Legislative Assembly of the Province of Canada, 1841, Appendix O.

§ II.—IMPERIAL REGULATION OF COLONIAL BANK CHARTERS

In August, 1833, after both banks had been operating under the Acts of 1832 for over a year, rumors of a Royal disallowance of the Acts became current. The banks then had, in all, fifteen or sixteen offices and agencies, had discounted paper to the amount of £450,000, and issued some £300,000 of notes. A temporary panic was the result of the rumor, for debtors of the banks greatly feared the withdrawal of their credits. In some places mass-meetings protested against a disallowance, and petitions to the King were drawn up. In several instances small runs were started. The banks ceased discounting for a time, but soon began again. Thus, in the language of the day, they restored mercantile confidence, and saved many from bankruptcy.[3]

The Committee of the Privy Council for Trade had adopted in 1830 a series of regulations applying to colonial bank charters and devised for the protection of the public interests. They were, it was said, "precautions rendered more necessary by an experience of the prejudicial effects which have, in former periods, resulted from the extension of the banking system in the neighboring States without the restrictions they impose."[4] The regulations were transmitted by the British Colonial Office in Downing street, with instructions for their observance in all Acts for the extension of the capital of existing banks or the creation of new banks in Upper Canada. The Acts of 1832 did not embody the provisions. The Committee for Trade, in a letter of the 9th May, 1833, objected to this omission; their recommendations were sanctioned by the threat to advise the exercise of the Royal prerogative to disallow the bills, in case they were not properly amended. The news of this action was the cause of the temporary panic, the protests and petitions in Upper Canada.

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[1] Journal, U.C., 1833-1834, Appendix, pp. 162 *et seq.*, Report of the Select Committee on the Subject of Banking.

[2] Journal, Canada, 1841, Appendix O.

[3] Journal, U.C., 1833-34, *ut supra*, Evidence of MR. CARTWRIGHT.

[4] Journal, U. C., 1833-34, p. 153.

An explanatory letter from the secretary to the Lords Commissioners of the Treasury, dated 30th October, 1833, announces the partial relaxation of some of the provisions in behalf of the Bank of Upper Canada, but insists that the regulations specified should be added to the respective charters. For the Commercial Bank these were, briefly:

1st, the charter of the bank to be forfeited by a suspension of specie payments for more than sixty days, consecutively or during the year;

2nd, the notes for circulation to be dated at the place of issue and to be payable upon demand, in specie, at the place of date and issue, as well as at the principal office of the bank, it being, however, expressly understood that it is not intended that any branch shall be called upon to pay the notes, either of the principal bank or other branches;

3rd, one-half the capital stock to be paid in forthwith, and the moiety at the discretion of the bank;

4th, the Directors as drawers, acceptors or indorsers, not to have more than one-third of the total discounts of the bank.

5th, the bank not to hold its own stock or to advance money on the credit of its stock;

6th, half yearly statements of the average assets and liabilities to be prepared from weekly balance sheets kept at the bank, and these, together with a statement of the rate and amount of the dividend and of the amount of reserved profits, to be furnished to the Government and published; further returns to be furnished if called for, and if required, to be verified upon oath;

7th, the shareholders to be respectively liable for the engagements of the company, to the extent of twice the amount of their subscribed shares, that is, to the amount of their subscribed stock, and to an equal amount in addition ;

8th, the bank not to loan or make advances on lands or other property not readily available to meet its engagements ; but to confine its transactions to what are understood to be the legitimate operations of banking, viz., advances upon commercial paper or government securities, and general dealings in money, bills of exchange and bullion.

The second, fourth, sixth and eighth provisions were to be applied to the Bank of Upper Canada ; the third and seventh to the new shareholders only.[1]

This correspondence was referred, in January, to a select committee of the House of Assembly. Bankers and merchants were called on to give evidence and criticise the regulations. On the 17th February, 1834, the committee reported that both the banks enjoyed the perfect confidence of the public, and had confined themselves strictly and honorably to the limits of their charters The committee agreed that banks with large capital were preferable in point of security, and believed that in a future distribution of bank capital it would be better to increase that of existing institutions than to create new ones. They criticised the regulations with vehemence, particularly the first two, and the sixth ; on the seventh they failed to come to a decision, but the eighth was provided for in existing charters. The third, fourth and fifth regulations were already observed in the practice of the banks. Generally, much discontent was exhibited at the Imperial interference. In the meantime, however, the President of the Commercial Bank, to avert, he said, "the ruin and distress" which immediate dissolution of the bank would cause the shareholders, agreed to accept the imposition of the double liability. The committee accordingly reported a bill applying this and the third, fourth and fifth provisions to the Commercial Bank only. They also proposed an address to the King, emphatically lauding the chartered banks, deploring the exercise of the Royal veto, and praying that the introduction of the new provisions into the charters should not be insisted on. The address was passed the 3rd March, 1834, by a vote of thirty-one to one. Action on the bill reported was postponed. In view of the sentiments expressed by the colonists in numerous petitions, of the excellent practice of the two banks, and of the long time that the Acts of 1832 had been in force, the Treasury forebore to advise their disallowance.[1]

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[1] Journal, U. C., 1833-34, p. 63, Letter from the HON. J. K. STEWART to R. W. HAY, ESQ.

The next bank charter passed in Upper Canada embodied the second, fifth, seventh and eighth of the regulations suggested by the Committee for Trade. Thus, for the first time in the Canadas, the public security was guarded by subjecting the shareholders of an incorporated bank to the double liability. But for penalties for the suspension of payments during any lengthened period, for restriction in the amount of discount to the directors, for periodical publication of accounts, for the payment of more than £10,000 of its capital, and subscription to more than £40,000, no provision was made. This was the Act passed in 1835, incorporating the Gore Bank, situate at Hamilton, and having a nominal capital of £100,000, to which the Royal assent was promulgated the 27th October, 1835. (6 Wm. IV., cap. 34.) To secure its independent management, incorporated companies were made incapable of holding stock in the Gore Bank, except such as should be conveyed to them in satisfaction of debts previously contracted. And upon such stock they were not entitled to vote. Otherwise the charter was like the laws governing the existing banks.

The Commercial Bank had found more capital necessary. During the same session it secured the power to double its stock, *i. e.*, to raise it from £100,000 to £200,000. The fourth and fifth of the Treasury regulations were applied to the Commercial by this Act; the eighth provision already existed in the original charter. But no precautions were taken to provide for the subscription and payment of the additional capital, the publication of accounts, the personal liability of shareholders, or the forfeiture of charter upon suspension of specie redemption for more than sixty days. (6 Wm. IV., cap. 33.) The omission of the regulations mentioned was repugnant to the principles laid down in England with respect to the establishment of banking corporations. Had he been governed by considerations of commercial policy alone, said Lord Glenelg, he could not have advised the confirmation of these Acts in the form in which they passed. But aware of the importance attached to their confirmation in the Province, and unwilling at that time to advise the disallowance of Acts which had received the colonial sanction, he decided not to enforce those principles, in the present instance, against the judgment of the Provincial Legislature.[1] Although the improvement of the Acts was recommended to the next session, the banks first established in Upper Canada were not subjected to all the Treasury regulations until five years later, when, in 1841, the new suggestions of the Imperial authorities were adopted, practically in full.

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[1] Journal, U.C., 1835, p. 63, Letter of the 23rd May, 1834, from E. G. STANLEY.

§ 12.—THE GROWTH AND CURE OF THE BANKING MANIA

The demand for accommodation was not to be satisfied, apparently, even by these additions to the banking capital of the Province. Another phase of the speculative movement and general expansion was inaugurated by a group from the Reform party. The faction in control of the Government, and all-powerful, likewise, in the chartered banks, favored limiting their number and requiring legislative sanction for each incorporation or addition to capital. Not so the Reformers. In 1831 and 1831-32 they had proposed to the Assembly general banking laws, in 1833-34 a bill " to make general the privilege of banking," in 1835 another " to establish an uniform system of banking," in 1836 a third " for the better regulation of banks and for protecting the interests of the public."[2] They displayed generally the desire to open the business to all who should wish to enter it.

The legal obstacles to such a freedom were not particularly difficult even as the law stood. British statutes of 15 and 17 Geo. III. prohibiting certain small notes and inland bills of exchange, were declared of no force in Upper Canada by an Act of 1821 (2 Geo. IV., cap. 12), and though the lack of corporate powers to sue was inconvenient, a joint stock association could carry on its business and even issue notes without much danger of legal penalties. A private bank started by two partners in 1834 was, in fact, taken over by the group of Reformers and organized under a deed of settlement as the Farmers' Joint Banking Company. They began business in September, 1835, with a paid-in capital which never rose above £50,000. But as the President and Solicitor were both elected from the dominant party, the disappointed Reformers left the bank, and in December, 1835, started a similar company called the Bank of the People.[1] Twelve months after this bank opened its doors with a paid-in capital of about £13,000, the Niagara Suspension Bridge Bank was established by a party of Americans. Though it kept agencies in Chippewa, and in Lockport, New York, its capital was even less. Meanwhile, Capt. Geo. Truscott, R.N., and one J. C. Green, an ex-commissariat officer, the former proprietors of the Farmers' Bank, started a weak-kneed concern under the name of the Agricultural Bank.

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[1] Journal, U.C., 1836, p. 264, Despatch of 11th Sept., 1835.

[2] *Vide* Journal, U.C., for the years mentioned.

But it was not long before an Act of 1837 (7 Wm. IV., cap. 13), laid down the principle, ever thereafter to obtain in Canada, that it is "inconsistent with a due regard to the protection of commerce and the welfare and security of the people, that any person or number of persons, some of whom may be of doubtful solvency, should be allowed, without legislative authority, to issue their promissory notes for circulation as money." A summary stop was put to the increase of such banks by making unauthorized note issue a misdemeanor after the 1st July, and contracts concerning the notes null and void. Exceptions were granted in favor of the four private banks just mentioned and the Bank of British North America. Other banks were enabled by 7 and 8 Wm. IV., cap. i., to collect their debts, enforce the payment of stock subscriptions, and close up their affairs through commissioners appointed under provincial authority.

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[1] "Reminiscences of his Public Life," by Sir Francis Hincks, p. 11, and Journal, U.C., 1837-38, Appendix, p. 223, also Journal, U.C., 1837, 2nd Session, Appendix.

The mention of certain attempts to alter the legislation dealing with them conveys no idea of the craze for banks and the excitement on banking questions which spread through the Province at this time. A better indication is the fact that between 1831 and 1840 no less than twenty-five public bills on the subject, which eventually failed of passing, were brought before the Assembly, and received more or less consideration. Naturally an agitation carried so far, carried on largely in the interests of borrowers, and carried on in a time of unusual activity, over-trading[1] and land speculation,[2] was not entirely for measures recommended by prudence or sound policy. In 1833 the House of Assembly passed a bill to enable the Receiver-General to issue bank notes chargeable on the public. A select committee in 1835 reported in favor of establishing a provincial bank on the basis of loans guaranteed by the Province, the profits to pay the interest on the public debt.[3]

Such "simple fiscal arrangements" found no favor with the Colonial Office in London. In a despatch dated the 31st August, 1836, Lord Glenelg, His Majesty's Principal Secretary of State for the Colonies, radically altered the manner in which the Acts passed by the Legislature of Upper Canada with respect to banking and currency, acquired statutory force. For ten years, at least, the Lieutenant-Governor, unless there were peculiar reasons for reserving it, had granted the Royal assent to such measures at the close of the session in which they were passed. Thus they became law immediately. If the measures were unsatisfactory to the Colonial Office, the remedy was to advise the Royal disallowance, after, perhaps, numerous and important engagements had been entered into under the Acts. But now the Lieutenant-Governor was instructed not to permit *any* Act, ordinance or regulation touching the circulation of promissory notes or the local legal tender, to come into operation in the colony, without having first received the Royal sanction conveyed to him by the Secretary of State.[1] The Assembly, at this, passed resolutions; with the Legislative Council, they adopted a joint address to the King. In this they affirmed that bills for establishing banks were purely local, and though acknowledging the constitutional right of His Majesty to act his pleasure upon any bill, strongly deprecated the exercise of that right upon matters of a local nature.[2]

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[1] Journal, U.C., 1837-38, Report of the Select Committee upon the Subject of Banking, Appendix, p. 212.

[2] Journal of the Legislative Council of the Province of Canada, 1837, Appendix A., Evidence of Mr. Cartwright.

[3] Journal, U.C., 1835, Appendix iii.

The Ministers of the Crown, however, had observed the progress of commercial speculations, particularly in North America. They saw only too much reason to anticipate the rapid approach of a period in which the multiplication of ill-secured representatives of coined money would involve the British American colonies in most serious financial difficulties. Their single resource to avert the danger was the Royal power of disallowance, but the exertion of this was always reluctant; when large capitals had been embarked, and many contracts made, it was extremely difficult. The reservation of the laws for the imperial sanction before they came into effect was, therefore, the only practicable plan. But the instructions were not the outcome of occasional motives only, or of a policy merely temporary. They were prompted by the permanent purpose not to allow the creation of corporate bodies, permitted to issue a paper currency, "without all the necessary limitations upon its extent and legal character." [3]

Events proved that Lord Glenelg's instructions were well advised. During the session of 1836-37 the banking mania seems thoroughly to have infected both the Legislature and the whole Province.[4] Bills were passed to increase the aggregate capital of the chartered banks in this province of 400,000 people, from £500,000 to £4,500,000, and to confer a power of issuing notes to the extent of £13,500,000.[5] Nine new banks were a part of the scheme, another feature of which was to make the Province a large shareholder in the Bank of Upper Canada. The effect of the latter would have been to render the bank one of the chief departments of the local administration. According to instructions, the Lieutenant-Governor reserved the bills, and sent them on to England. There they met the scathing criticism they deserved. The Imperial authorities, nevertheless, were willing neither to disallow the whole series nor to pick out the unobjectionable measures worthy of passing. Decision was suspended for the time being. None of the Acts were allowed to take effect, but all were referred back to the colonial legislature for more sober consideration. Before Parliament again met in regular session, events in Canada somewhat calmed the banking excitement. Not a single one of the reserved bills was re-enacted. In December, 1837, a second series of rules, drawn up by the Committee for Trade, and recommended by great experience and much careful reflection, were forwarded by Lord Glenelg, with the advice that they should be adopted by the Local Legislature for its own guidance, and as terms to be insisted upon in all charters for the incorporation of banking companies. The instructions so disliked by the colonists, the occasional motives for them having disappeared, were withdrawn at the same time.[1]

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[1] Journal, U.C., 1837, p. 321.

[2] Journal, U.C., 20th January, 1837, pp. 321, 322.

[3] Journal, U.C., 1839, p. 40 u, Despatch of the 28th December, 1839.

[4] *Cf. The Patriot* newspaper, Toronto, issue of 8th November, 1836.

[5] Journal, U.C., 1837-38, p. 208.

Only the insistence of the imperial authorities secured to Upper Canadians the additional safeguards in the bank Acts of 1835. In 1836 and 1837, only the firm restraint and cool judgment of these officials saved Upper Canadians from the consequences of their banking frenzy. The instructions of August prevented the establishment of banks with a nominal capital of over four millions sterling, on the eve of the most disastrous crisis which North America had ever experienced. They mitigated in great degree, though they could not avert, the calamities which were soon to befall the provincials in consequence of their own mistakes, and suspension of specie payments in the United States. Where supervision by the Colonial Office over colonial legislation, and Treasury regulation of colonial bank charters again appear in our narrative, there will be found additional proof of their beneficial influence upon the Canadian banking system.

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[1] Journal, U.C., 1839, p. 40 v.

§ 13.—PRACTICE OF THE BANKS

The details in which the business carried on by the Upper Canada banks in the thirties, differs from that of the Ontario banks of to-day, were due partly to conditions, partly to principle. Slow communications, *e.g.*, caused exchanges between the banks to be less frequent ; they were effected weekly instead of daily. But settlements were made in drafts on Montreal or New York, or in specie, practically as they are to-day.[1] The small amount of good collateral security, bonds and stocks in the Province, caused more loans to be made upon personal security, *i.e.*, notes with one or more endorsements, and fewer loans secured by documents. In the scarcity of marketable personalty, the banks suffered great temptation to loan upon real estate security, in forms more or less disguised. Events proved that not all of them resisted. The Commercial Bank introduced a system of cash credits, in imitation of the Scotch practice. Where a bank's customers have little other wealth than land, this is a pretty close approach to loaning upon the security of land. It is doubtful, too, whether proper conditions for extending cash credits existed in Canada. Certainly there was no analogy between the constant market for Scotch real estate and the occasional opportunity to sell Canadian lands. And yet the price under the auctioneer's hammer is the only test of the immediately available value of land

Up to 1832, the Bank of Upper Canada, having no local competitors to present its notes for redemption, was able to keep out a larger circulation. And with the help of this it could discount for ninety days with leave to retire by payments of one-fifth every three months, the term of credit being fifteen months. The extent of its operations in those palmy days has been indicated by the returns already given.

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[1] Journal, U.C., 1837, 2nd Session, Appendix, Report of the Select Committee to which was referred the Subject of the Monetary System of the Province.

In 1836 the three chartered banks reported :—[1]

	Bank of Upper Canada, 16th Nov., 1836	Commercial Bank. 7th Nov., 1836	Gore Bank. 28th Nov., 1836
LIABILITIES (shillings and pence omitted).			
Capital stock paid in............	£200,000	£186,450	£61,005
Notes in circulation, $5 and upwards	180,826	119,873	1,617
Notes in circulation under $5....	45,828	55,250	27,913
Balances due to other banks	4,362	10,834	
Balance due to agencies (in transitu)	788		
Cash deposited, including all sums not in the foregoing heads and not bearing interest	154,604	29,165	6,241
Cash deposited, bearing interest..	3,016	4,201	1,053
	£589,426	£405,774	£96,212
RESOURCES of the bank.			
Gold, silver and other coined metals in the vaults of the bank	£63,796	£46,935	£20,832
Real estate and bank furniture ..	8,880	3,729	847
Bills of other banks	18,045	5,318	2,642
Balances due from other banks and foreign agencies in London and New York on Exchange transactions	84,728	18,082	3,385
Amount of all debts due, including notes, bills of exchange, and all stock and funded debts of every description, except in the balances due from other banks	413,976	331,709	68,504
Total resources	£589,426	£405,774	£96,212
MISCELLANEOUS.			
Amount of reserved profits after declaring the last dividend ..	£11,073	£1,912	
Overdue debts	56,355	11,582	£1,324

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[1] Journal, U.C., 1837, pp. 73, 89, 128.

In 1837 the principal items for the chartered as well as private banks were on the 15th June :[1]

	Capital stock Paid-up	Notes in Circulation	Specie	Deposits	Loans and Discounts
Bank of Upper Canada	£200,000	£168 906	£37,850	£158,548	£444,958
Commercial Bank	196,597	116,092	23,102	37.644	344,088
Gore Bank	80,381	34,246	17,932	8,379	105,993
Total chartered banks ..	£476,978	£319,244	£78,884	£204,571	£895,039
Farmers' Bank............	£38,221	£23,800	£5,660	.... ..	£50 316
Bank of the People.........	12,375	12,633	2,890	£7,330	23,896
Agricultural Bank	39,727	18,612	3,544	3,500	51,181
Niagara S. B. Bank........	7,700	16,103	2,363	1,598	18,235
Total private banks	£98,023	£71,148	£14,457	£12,328	£143,718
Grand total	£575,001	£390,392	£93,341	£216,899	£1,039,757

The value of competition in banking was well illustrated when the Commercial Bank entered the Upper Canada field. It was active in presenting the notes of the competing bank for redemption. With its circulation thus forced in, the Bank of Upper Canada found it necessary to limit the term of credits to nine months, *i.e.*, to allow renewals of 90 day discounts on the payment of not less than one-third of the original grant. The result was good, for the term during which merchants were responsible as indorsers was lessened ; they were able more accurately to provide for their liabilities ; and persons of moderate means borrowed less than before, and not more than could be paid in the shorter time.[2] The further advantage of securing frequent tests of the convertibility of bank notes, by actual redemption, need only be mentioned.

Chartered as well as private banks established no branches in the sense that their notes were payable at any other place than their principal establishments.[3] The plan of redeeming bank notes at but one place, and that the bank's head office, permits an economy of specie, a strong central reserve, a stability and security in the bank's own procedure that would be impossible, with the same rate of profit, were it necessary to meet demands for redemption at all the offices of the bank. Of what were technically termed offices of discount and deposit, but really branch banks in all save the function of issue, the Upper Canada Bank had four in 1837, the Commercial three, the Gore none. Of agencies, chiefly employed for payments, collections and the purchase of exchange,[1] they had one,[2] eleven and none respectively.[3]

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[1] *Ibid.*

[2] Journal, U.C., 1833-34, Appendix, pp. 169, *et seq.*

[3] Except the Niagara Suspension Bridge Bank, which issued some notes payable at Lockport, N. Y.

A liberal foreign correspondence had been established and funds deposited in London, New York City and Montreal, against which the banks drew exchange, usually with a material profit.[4] The balance of trade with Lower Canada and the United States was adverse in both cases.[5] To meet this difficulty and to acquire funds in New York at the least cost, certain of the banks discounted, to some extent, American bills payable in that city.[6] A balance there was always desirable, for sterling exchange could sometimes be bought at three to four per cent. under the Canada rate.[7] The banks also discounted large amounts of merchants' and shippers' bills drawn against consignments of wheat, flour, pork and other produce. The means for extending to lumbermen and produce buyers the five or six months credit needed during the winter and early spring, and waiting for repayment out of the proceeds of sales in foreign markets, were much desired, but the banking capital was quite inadequate to such support.[1] It was, perhaps, quite as well that even leading trades should supply their own capital.

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[1] More specifically, an agent's business was to discount bills on Lower Canada, New York, or any part of the Province, to receive bills of individuals for collection, to receive deposits and to forward and advise on notes offered to him for discount by persons in his district, to pay the proceeds when discounted, to receive payments when due, and generally to do anything required by the bank. He had balances on hand and drew upon the principal bank. It was his duty to use its notes in his disbursements, and on all payments he received one-quarter of one per cent. commission. The offices had boards appointed from the local shareholders and exercised their own discretion, subject of course to instruction, in discounting. Upper Canada King's Bench Reports, 6 Wm. IV. to 2 Vic., p. 541.

[2] It is probable that the number of agencies established by the Bank of Upper Canada is misstated in the document cited in note 3; and that it had at least as many as the Commercial Bank. An advertisement in the Kingston *Patriot*, 17th July, 1832, mentions four agencies.

[3] Journal, U.C., 1837-38, Appendix, pp. 221, 225 and 229.

[4] Journal, U.C., 1833-34, Appendix, pp. 162, *et seq*.

[5] Journal Legislative Council, U.C., 1837, Appendix A, p. 41.

[6] Journal, U.C., 1837, Appendix, *ut supra*, p. 18.

[7] *Ibid*, p. 37.

The note circulation bore a much higher ratio to capital during the first decade of the Bank of Upper Canada's experience than ever afterwards. The proportion fell from 250 per cent. in 1826 to 187 per cent. in 1831. After the competition of the newer banks became effective it fell still more, and in 1834 to 1836 seldom rose more than 20 per cent. above the paid-in capital. The total circulation of the chartered banks was on the

1st January, 1834	£267,209
" " 1835	333,715
" " 1836	332,178
" " 1837	404,823

On the latter date, the four private banks had £85,451 outstanding, making the total circulation of the province £490,274. This excludes the notes of Lower Canada banks, which had some currency in spite of the law against them. (4 Geo. IV., cap. 13). It includes, on the other hand, the considerable circulation of small notes in the United States, especially in the western counties of New York and those bordering on the River St. Lawrence.[2] The banks were afterwards to find their American circulation a source more of trouble than of profit. Already some of the bankers in the Western States found it cheaper, by using the private banks as brokers, to get gold on the notes of Canadian chartered banks than to bring specie from the seaboard.[3] For purposes of redemption and shipment, recourse was had to the specie markets of Montreal and New York. The silver circulation was composed, for the most part, of coins struck in the mint at Philadelphia. These facts led one of the ablest witnesses before the Committee of 1837 to call the province "a limb of the monetary system" of the United States.[4] Five hundred and fifty thousand pounds currency, $2,200,000, were imported by the banks between 1830 and 1836.[1, 2]

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[1] Journal, U.C., 1833-34, Appendix, p. 170, Testimony of Thos. G. Ridout.

[2] Report of the New York Bank Commissioners, 1835.

[3] Journal, U.C., 1833-34, *ut supra*.

[4] Journal, U.C., 1837, Report of the Select Committee to which was referred the Subject of the Monetary System of the Province, Appendix, p. 34, Evidence of Benj. Thorne.

The directorates enjoyed no such large proportion of the discounts as those in the Lower Provinces. In 1834 the accommodation extended to the directors had never exceeded one-sixth of the total discounts. The directors of the Bank of Upper Canada had never had more than the twentieth part, either as promissors or indorsers.

In their general business of loaning, the banks doubtless supplied a market wider, in some respects, than they do to-day. Other forms of credit institutions were not yet developed. So, in 1835, the cashier of the Bank of Upper Canada said, "In my opinion, every farmer or person in trade or in reputable circumstances, who can give unexceptionable personal security, has a right to secure from the public banks reasonable accommodation in proportion to his means, without being considered to ask for favors."[3] The period was one in which politicians, lawyers, estate owners and adventurers were able to secure generous grants from the loanable funds of the banks. The banks did not, as now, observe the principle that credit should be based either on an exchange of commodities or an increase of commodities. The effort to adapt the Scotch cash credits to Canadian conditions has been mentioned. Yet the essential characteristics of Scotch banking were not generally appreciated in the Upper Province, nor its traditions followed. The banks were not, as now, predominantly commercial and industrial banks. Indeed, when the Bank of Montreal proposed, in 1839, to extend its operations to the Upper Province, the plan was welcomed by informed observers as promising essential benefits, "for in a short time it would instruct our directors in the system of commercial banking, which very few of them understood."[4]

Were many more charges laid against them, it would be

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[1] Journal, Canada, 1841, Appendix O.

[2] The Bank of Upper Canada imported £465,000 of the sum mentioned. Nine-tenths of this, they estimated, was issued to the private banks, the greater part of which was sold at a small advance in the United States. Journal, U.C., 1837, Appendix, p. 37.

[3] Journal, U.C., 1835, Appendix iii., Evidence of THOS. G. RIDOUT.

[4] Journal, U.C., 1839, Appendix, Vol. II., part ii., Third Report of the Select Committee on Banking, p. 771, Evidence of FRANCIS HINCKS.

necessary still to acknowledge that the banks were of great, of incalculable service to the colony. In a young, thinly settled, scarcely exploited, but advancing country, there ought not, perhaps, to be enforced the maxims and limits of banking applicable to a wealthier community with a credit organization developed on many sides. Elsewhere, certainly, the rigid rules have not been enforced, through periods of which every reader can provide examples. The contrast with contemporary American banks and American practice, even in the State of New York, is, in respect at least to stability and the public security, entirely in favor of the Upper Canadian institutions. For over forty years not a single bank chartered by Upper Canada failed. During that time, they earned good dividends for their shareholders, and, by increasing their capital and establishments, kept pace with the growing needs of the Province. The period marked by wreck and ruin in the States on the south, they survived with numbers intact and solvency unimpaired.

§ 14.—THE SUSPENSION OF SPECIE PAYMENTS AND THE CRISIS OF 1837

The suspension of specie payments by the American banks on the 11th and 12th May, 1837, and the following days, necessarily affected the banks in Lower Canada. The more active and pressing demand for specie in the markets of the United States immediately caused a heavy drain of specie upon their vaults. Sterling exchange was risen to a figure where anything but the export of specie would have been ruinous to the remitter. The reserves could not be augmented by imports in time to meet the extraordinary proportion of demand claims that were presented for payment. It was necessary to do something to save what gold they still had, and to prevent the contraction of circulation and discounts which, though essential to the maintenance of specie payments, would have been disastrous in the involved condition of the commercial community. The Lower Canada banks suspended on the 18th May, 1837.[1]

For Upper Canada this seemed like an added blow. Its people had not yet awakened to the situation. They were still scheming to secure more banking capital. They generally misinterpreted the causes of the movement of the precious metals toward the United States and London. The convertibility of Upper Canada bank paper, said an official report, was vested on the good faith of the Governments of the United States, Lower Canada and Upper Canada in preserving the equal value of their common currency.[1] This was their euphemism for the fact that New York and Montreal were the specie marts for Upper Canada, and that the price was then higher than the Provincials cared to pay. They failed also to realize the necessity for a general contraction, once the crisis had come. The leader of the Reformers, however, Wm. Lyon Mackenzie, was guilty of instigating a run on the Bank of Upper Canada. But the bank paid the notes in silver and kept friends at the counter who, at night, trundled the specie back in a wheelbarrow.[2]

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[1] Journal, Can., 1859, Report and Proceedings of the Committee on Banking and Currency, Appendix, number 67.

By the 15th June the effect of the specie drain had been considerable, as the statement of circulation and specie will show.[3]

Circulation	Chartered Banks	Private Banks	Total
1st January, 1837	£404,823	£85,451	£490,274
15th May, 1837	423,401	85,495	508,896
15th June, 1837	319,244	71,148	390,392
Difference between May and June	£104,157	£14,347	£118,504
Specie.			
15th May, 1837	£107,334	£13,455	£120,789
15th June, 1837	78,884	14,457	93,341
Difference between May and June	£28,450	£1,002	£27,448

But the Bank of Upper Canada had imported specie for £40,000 between the two dates. The total loss of specie, therefore, was £67,448 instead of £27,448, and yet on the 20th June the banks were still maintaining payments, and their notes were at par with specie. To do this, they had been obliged to call in their discounts and suffer a contraction of 25 per cent. in the note circulation. So far as the granting of credit was concerned, banking operations had practically ceased.

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[1] Journal, U.C., 1837, 2nd session, Appendix, Report of the Select Committee on the Monetary System.

[2] Charles Lindsey, "The Life and Times of Wm. Lyon Mackenzie," Toronto, 1862, p. 34.

[3] *Vide* note 1.

The withdrawal of the credit accommodation usually extended to merchants was not the sole cause, or the deepest, of the commercial embarrassment. The wet harvest of 1835 and the reduced value of wheat in that year had lessened materially the wealth in the hands of the farming community. They comprised at least two-thirds of the population. They had suffered from the short crops of 1836, and had fixed rather rash proportions of their capital in land and improvements. Other debtors, having invested sums obtained from bank discounts in long speculations, now found it impossible to retire their paper.[1] The shipments of wheat, flour, pork and other produce to Lower Canada were less in the spring of 1837 than in former years. The practice being to draw against such shipments to pay for the purchases of the preceding year, the merchants had less wherewith to meet accrued claims against them. The balance of trade was thus still more heavily against Upper Canada, and in favor of the Lower Province and the United States. The consequences were, increased tendency to export specie and intensified demand for discount accommodation from the banks.[2] The house of Thos. Wilson & Co., London, bankers, and financial agents for the province, stopped payment the 2nd June. Bills of exchange drawn upon them went to protest, and about £83,000 stg., the balance of provincial moneys still in their hands, appeared to be in jeopardy.[3]

The Legislature of Upper Canada met in extraordinary session the 19th June. Its business was with the financial and commercial difficulties that distressed the province. The Lieutenant-Governor, Sir Francis Bond Head, opened the session by an eloquent speech, in which, quite naturally, he discussed the drain of specie suffered by the banks, and their, as yet, undoubted solvency. Sir Francis himself opposed a suspension of specie payments while the coffers of the banks were still full of coin, first, as impolitic, imperilling the confidence of the British public, whose wealth the colony needed, and, secondly, as dishonorable, involving breach of faith with the public creditors. He put the alternatives squarely, fraud or honor, suspension with full or with empty specie chests; and then urged the Legislature, "like Britons, to be true and just in all their dealings." He spoke in vain. The Assembly passed a bill authorizing the banks forthwith to suspend specie payments. As amended in important details by the Legislative Council, passed on the 10th and approved on the 11th July, the measure applied only to the chartered banks and the four excepted private banks. Provided the authority to suspend was first obtained from the Governor-in-Council, the banks were relieved from the legal incapacity to carry on banking operations when not redeeming notes in specie. The Lieutenant-Governor might impose conditions supplementary to the Act, and call for returns. Actions brought against banks, unless to liquidate claims or otherwise to further justice, were suspended during the term of the suspension of payments. Courts before which actions should be brought might stay proceedings on the application of the defendants and hearing of the parties. Suspension was to be optional, not compulsory upon the banks. The expiry of the law was fixed for the end of the then next session of Parliament. During this period no suspended bank was to issue notes in excess of paid in capital stock, or to dispose of its specie otherwise than in paying fractional parts of a dollar, or in redeeming dollar notes. (7 & 8 Wm. IV., cap 2.)

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[1] Journal, U.C., 1837-38, Appendix, p. 212.

[2] Journal, U.C., 1837, Appendix, *ut supra*.

[3] Journal, U.C., 1837-38, Appendix, p. 122. But the sum was afterwards recovered with interest.

It was said at the time this measure was being debated, "the commercial interests of the country require immediate accommodation of the banks, and that cannot be afforded without suspension or by giving the community a substitute for specie."[1] In other words, it was feared to precipitate the mercantile bankruptcy which refusal of the usual support of bank loans was likely to cause. To maintain redemption the banks would be obliged to contract both discounts and circulation. To maintain payment also involved for them the losses due to the cost of getting specie. And aided by a certain fogginess of provincial ideas upon monetary questions, the combination of bank and borrowing interests carried the bill through. The sequel shows how few of the anticipated results were gained.

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[1] Journal, U.C., 1837, Appendix, p. 26, evidence of Mr. Proudfoot.

The Commercial Bank of the Midland District was the only chartered bank soon to avail itself of the Act. Its suspension was authorized the 29th September, 1837.[1] The Lieutenant-Governor imposed, with his permission, the condition that notes of a suspended bank should not be used in Government transactions. By this means the large military outlay, soon to occur, was prevented from being an instrument for the inflation of an inconvertible currency. The Agricultural Bank practically suspended, and in November, 1837, failed utterly. Its partners decamped. Green was arrested in Buffalo. Truscott sailed for Europe "to negotiate the American securities of the bank." The precious pair left behind them about £20,000 of notes utterly unprovided for, and claims of depositors for over £18,000, against which but £7,000 of commercial paper could be found.[2] The Farmers' Bank suspended for only two months at the close of 1837; the Bank of the People not at all in that year.

The Bank of Upper Canada much desired to suspend, and the cashier, Thos. G. Ridout, rather pressed their wishes upon the Lieutenant-Governor. Wearied and impatient, Sir Francis summarily closed the discussion by exclaiming, "Sir, the principle of monarchy is honor! The Bank of Upper Canada is the Government bank. To maintain its honor the bank must redeem in specie!" And until the 5th March, 1838, it continued so to redeem, in spite of the reduction of circulation from £212,000 in May to £80,000 in December.[3] The Gore Bank stood with the Government institution.

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[1] Upper Canada *Gazette*, Vol. XII., No. 21.

[2] Journal, U.C., 1837-38, Appendix, pp. 212 *et seq*.

[3] For the figures the reader is referred to Journal, U.C., 1839, Appendix, Vol. II., part ii., pp. 607 *et seq*. For the incident related the authority is unquestionable, but I am not at liberty to cite it.

The situation in Lower Canada was complicated by the appearance of armed insurrection on the 17th November. The trouble was not wholly unexpected. Before the close of navigation the banks at Montreal had transferred their specie to Quebec, and, like the Quebec Bank, deposited it for safe keeping in the citadel. Activities not connected with the hostilities were pretty much suspended while the latter endured. But the last party of rebels surrendered the 15th December, and on the 26th February, 1838, though the military were still on the alert, a public thanksgiving for the restoration of order was held.[1] The large expenditures of specie made by the British commissariat were of material assistance at this crisis, and made the resumption of specie payments on the 23rd June, 1838, comparatively easy for the Lower Canada banks.[2]

On the 4th December, 1837, the first movements of a similar rebellion, partly sympathetic and partly independent, occurred near Toronto (formerly York), the capital of the Upper Province. In this case, however, the insurgents were chiefly Reformers of Anglo-Saxon blood, instead of disaffected French. Within ten days the main force of rebels at Toronto, and the other party near London, had submitted to the Government or fled the country. Peace was again broken by the so-called American invasion, beginning the 13th, the capture of Navy Island in the Niagara River, and the bombardment of Chippewa, a town on the Canadian shore. Then the steamer "Caroline" was destroyed by the Canadian militia, and the invaders defied the authorities on either side of the line.[3] To quell the present and prevent future disturbance it was now necessary to quarter a considerable force of troops in the Upper Province. The Commissary-General was unable, however, to meet the large outlay of money which this required. By December, the Bank of Upper Canada had accumulated £140,000 in specie. It advanced £50,000 to the Government in dollars, and offered to furnish the money for military disbursements in all parts of the province where posts were established.

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[1] ROBERT CHRISTIE, History of Lower Canada, Vol. IV., pp. 448 *et seq.*

[2] Journal, Can., 1859, Appendix, No. 67, p. 17, Evidence of the Bank of Montreal.

[3] Journal, U.C., 1837-38, p. 35, Despatch of F. B. HEAD, Lieutenant-Governor, to H. S. FOX, British Minister at Washington.

In the first quarter of 1838, it did advance some £219,000 on treasury bills on London. The bank's circulation rose to £154,000, its specie fell to £60,000. The suspended banks took advantage of the large issues, collected the notes for redemption, and refused their own in exchange. The disturbed state of the American frontier made the import of specie from New York impracticable. To supply the whole country with specie was something that the Commissary-General and bank combined could scarcely undertake. On the 5th March, 1838, the Bank of Upper Canada applied for authority to suspend. The permission was granted immediately.[1] The suspension of the Gore Bank was authorized on the 10th of March.

On the 6th March, also, was approved an Act (1 Vic., cap. 22, U.C.) extending the limit of note issues during the suspension to twice the paid-in capital of the suspended banks. The clause which forbade the banks to dispose of their specie was repealed.

Owing to the opposition of the Bank of Upper Canada, none of the banks in that Province joined in the general resumption by the banks of the United States and Lower Canada in June, 1838.[2, 3] The Lower Canada chartered banks did not long continue a specie redemption. A second insurrection in the following November obliged them again to suspend, the suspension being authorized and facilitated by an ordinance of the Special Council passed the 5th November.[4] Circulation during the suspension was limited to the paid-in capital stock, and the banks were obliged to retain the specie held by them, and not to sell it except to the Government. The ordinance applied also to the Bank of British North America and La Banque du Peuple. During the authorized suspension bank notes became a legal tender in stay of proceedings at law.

On the 17th July, 1838, the new Lieutenant-Governor of

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[1] Journal, U.C., 1839, Appendix, Vol. II., part 2, pp. 607 *et seq.*, Correspondence on the subject of the suspension of specie payments; also Upper Canada *Gazette*, Vol. XII., No. 45.

[2] *Ibid*, Letter of the Bank of Montreal.

[3] *Vide* Ordinances of the Special Council, L.C., 1838, p. 142, for the law respecting suspension and resumption.

[4] Ordinances of the Administrator of the Government and Special Council, L.C., 1838, p. 10, 2 Vic., cap. 1.

Upper Canada, Sir George Arthur, intimated to the banks of the province the peculiar interest taken by H. M. Government in the state of the currency in all parts of the empire, and urged upon them the propriety of again paying in specie. Exchange was low, the country quiet, and much specie had been imported for the use of the Government. The times were propitious, and he tried to arrange an early and simultaneous resumption by all the banks.[1] The Gore Bank was willing to enter into communication with the other banks, with a sincere wish to give effect to the plan. The Commercial Bank was prepared to resume as soon as the other institutions named a day for the purpose, so that a simultaneous resumption should occur.[2] The Bank of Upper Canada replied in a long letter, dwelling on the public inconvenience and distress which it feared would attend a resumption. The bank tried to throw the responsibility of the postponement upon the Commercial Bank, and then counselled waiting until the heavy crop of wheat had been harvested and brought to market. But when that time arrived, there was increased hostility on the American frontier. Specie could not be imported safely, and Sir George forbore to urge resumption. In May, 1839, the Bank of Upper Canada again opposed resumption with the Lower Canada banks. The renewal of the stay law was secured to the 1st November, 1839. (2 Vic., cap. 13, U.C.) Then the bank practically refused to resume until the statutory authority for suspension had expired. The Lieutenant-Governor could exercise no coercion under the law, and the advantage of the Government deposits enjoyed by the Bank of Upper Canada compelled the other banks to follow in its wake.[3]

Aided once more by the expenditures for military purposes, and with no practical injury or check to trade, the banks of Lower Canada resumed specie payments on the 1st June, 1839; those of the Upper Province, the law having expired, on the 1st November of the same year.

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[1] *Ibid*, p. 609, Circular of Sir George Arthur.

[2] *Ibid*, p. 614.

[3] *Ibid*, p. 619.

§ 15.—EFFECTS OF THE CRISIS AND SUSPENSION

According to instructions from Downing Street,[1] the Upper Canada Act continuing the stay law had forbidden the payment of dividends during the suspension. But as this endured for only six months, the regular distribution of profits was little interfered with. The affairs of the banks in both provinces were conducted with great caution and prudence. Partly for this reason, partly because of the depression in Canadian export trades which followed the crisis of 1837 in Great Britain and the United States, the bank profits during the suspension were not excessive. Following are the rates of the dividends declared by four of the banks between 1832 and 1840.[2]

	1832 per cent.	1833	1834	1835	1836	1837	1838	1839	1840
Bank of Montreal	7 & 5	8 & 6	8 & 6	8 & 6	8 & 4	8	6 & 16	7	6
Quebec Bank	6	6	....	....	....	4½	8	6	7
Bank of Upper Canada	8 & 18	8	8	8 & 4	8	8	8	8	8
Commercial Bank	....	4	8	8	8	7	7 & 6	4	8

The Bank of Montreal therefore distributed 54 per cent. on its capital in the four years preceding suspension, and 43 per cent. in the four years including it (1837-1840). But the latter figure should be diminished by the 16 per cent. premium on new stock paid to the old shareholders in 1838. The Bank of Upper Canada divided 36 per cent. in the earlier, 32 per cent. in the later period; the Commercial, 28 per cent. and 32 per cent. From the last, however, must be deducted 6 per cent. premium paid for new stock to the original proprietors, and some amount to represent the cost of starting the bank in 1832 and 1833. The Quebec Bank, through exceptional causes, passed its dividends in 1834-1836, and is not properly included in the exhibit. The capital of the Bank of Montreal, £250,000 in 1837, was increased to £483,689 in 1840; that of the Commercial Bank from £100,000 in 1835, to nearly £200,000 in 1838. It has been said that, as a rule, suspensions of specie payments are highly profitable to banks of issue. And yet our corrected comparison between a period of specie payments and one chiefly of suspension, affords no proof of the principle in point either of aggregate profits of the banks, or the ratio of their earnings to capital. One cause of the exception was doubtless the cautious management of the banks ; other and more explicit reasons appear to have been the restraints imposed upon the banks by law, by circumstances, and by their own mutual competition.

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[1] Journal, U.C., 1839, Appendix, p. 609.

[2] Journal, Can., 1859, Appendix No. 67.

The legal restraints, such as prohibition of the use of inconvertible notes in Government transactions and the limitation of issues, are already familiar. The second group must be discussed in connection with the benefits derived by the public from the suspension. Properly to estimate these will be difficult, for they are mixed with evils, misfortunes and loss brought by reaction from the fever of speculation.

The political situation in Lower Canada had destroyed confidence in the security of property, depreciated its value and arrested the improvement and settlement of the country. Landed property had declined to an alarming extent. In the first year succeeding the crisis the timber trade had suffered little, but the province, instead of exporting, was obliged to import grain. The number of immigrants arriving at Quebec, no less than 52,000 in 1832, fell to 5,000 in 1838. This loss also checked the advance of the province.[1] Upper Canada had experienced similar insecurity and depreciation. By August, 1838, goods, chattels, lands or houses would not bring at forced sale a third of the former prices, confidence was sadly lacking in trade, thousands of settlers were leaving the province. The inconvertibility of property left debtors without the means of meeting the engagements, and liabilities comparatively trifling were often found sufficient to ruin those who had justly thought themselves opulent. The ordinary influx of immigration and British capital had been suspended, and work on public improvements stopped.[2]

In the opinion of one bank "the suspension enabled the Canadian banks to afford requisite facilities to customers and the public. This could not have been done had specie payment been compulsory."[1] But all the banks were burdened by many debts overdue, the result of the liberal discounts that preceded the crisis being locked up, in part, in long speculations by the borrowers.[2] The Bank of Montreal wrote that "to a considerable extent banking facilities, by a forced system of renewals, were confined to the class chiefly indebted to the banks at the time of suspension."[3] Similar testimony was given by the other banks. And when the law was about to expire the cashier of the Bank of the People (afterwards, as Sir Francis Hincks, Finance Minister of the Dominion,) acknowledged before a committee of the Assembly that the suspension had not enabled the banks to extend their accommodation.[4]

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[1] LORD DURHAM'S Report, p. 21.

[2] Journal, U.C., 1839, Appendix, Vol. II., part 2, p. 544.

In one case, at least, the contrary result occurred. The Bank of Upper Canada had the Government deposits, was the medium of the Government's disbursements, was under large advances to the Province, and dealt largely in Government exchange on London. It acted, therefore, rather as an organ of financial administration than as an institution for the assistance of agriculture and commerce. In 1837, its profits on sterling exchange exceeded the whole, in 1838 the half, of its declared dividends. The board of directors stopped discounting at the offices, and compelled all dealing to be done directly with the head office. Their refusals of discount accommodation caused merchants and others accustomed to depend upon it not only great inconvenience, but also serious injury.[5] From the weight of evidence we are obliged to conclude that the Canadian public did not derive additional benefits in the way of discounts from the suspension of specie payments. The reports of amounts discounted each month before, after and during the suspension, show that in both provinces the average of amounts discounted each month were considerably less during the suspension, than either before or after it.[1]

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[1] Journal, Can., 1859, Appendix, No. 67, Replies to Question 17.

[2] Journal, U.C., 1837-38, Appendix, pp. 212 *et seq.*

[3] Journal, Can., 1859, *ut supra.*

[4] Journal, U.C., 1839, Vol. II., part 2, page 770. *Cf.* also p. 763, Evidence of Mr. Proudfoot, President of the Bank of Upper Canada.

[5] *Ibid*, pp. 619 *et seq.*, Letter from the Bank of Montreal.

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[1] The following tables compiled from the Committee Reports of 1837, 1837-38, 1841 and 1859, comprise the available statistics on this point:—

Total Discounts	Bank of Upper Canada	Commercial Bank	Gore Bank	Farmers' Bank	Bank of the People	Niagara S. B. Bank	Bank of Montreal	Bank of B. N. America
15th June, 1837..........	£444,958	£344,088	£105,993	£50,316	£23,896	£18,235	..	..
On date of suspension, 18th May, 1837......	..	..	..	..	..	..	£682,042	..
January, 1838	218,036	328,056	89,168	60,874	18,538	16,064	..	..
On date of suspension, 5th March, 1838	212,864	..	48,632	..	..	..	..	..
On date of resumption, 23rd June, 1838......	..	..	..	..	..	..	640,334	..
On date of suspension, 6th Nov., 1838..........	..	..	..	..	..	..	738,750	£310,248
On date of resumption, 1st June, 1839..........	..	..	..	..	..	..	653,833	274,583
On date of resumption, 1st Nov , 1839..........	186,382	398,691	63,004	..	..	..	..	..

Average Amount Discounted Monthly	Bank of Montreal	Quebec Bank	City Bank		Bank of Upper Canada	Commercial Bank	Gore Bank
Jan., 1836, to May, 1837[2].	£237,752	£55,644	£102,316	....	£370,894	£77,094	£23,510
June, 1837, to May, 1838[3].	*223,810*	*45,134*	*80,713*	June, '37 to Feb., '38.	252,780	*65,846*[3]	22,644
June, 1838, to Oct. 1838[2]..	254,554	48,294	78,087	*Mar., '38 to Oct., '39.*[3]	*230,488*	*93,086*	*24,896*
Nov., 1838, to May, 1839[3].	*218,729*	*37,609*	*82,988*	Nov., '39 to Dec., '40.[2]	315,087	99,351	29,840
June, 1839, to Dec., 1839..	251,983	42,765	92,325	....	..	..	..

[2] A time of specie payments.

[3] During suspension of specie payments.

[4] Bank of U.C. only gives average of aggregate discounts current each month; others merely the average of monthly discounts.

It will be remembered that the Commercial Bank and Gore Bank were calling up their stock in this period, and so do not show in their return the unmixed effects of the suspension. The Montreal Bank, also, was calling up added stock. Its figures, therefore, furnish specially strong confirmation of the conclusion in the text, for even with its means thus increased its discounts were less.

The fact is, the banks were compelled by circumstances to redeem their liabilities in foreign exchange. For a short time the Bank of Upper Canada refused to give anything for its notes. But after causing great inconvenience it gave up the experiment.[1] Complete suspension would have been ruinous. This the banks appreciated. Redemption in exchange was still redemption, and the need to maintain it, as well as its maintenance, checked excessive issue of notes, and compelled the usual care to loan, not only safely, but so that new credits should be speedily available and well in hand. But in redeeming by exchange there was an opportunity to exploit the public in charges for premium that the banks sometimes improved.[2] In this respect the effects of the suspension were, instead of benefits, only added expense to the public, while the banks were able to recoup themselves for some of the losses incurred in the crisis.

The highest rate, in suspended bank paper, for sterling exchange, was reached in Montreal, in July, 1837, viz., 122½. Toward the end of the month it reached 123 in Toronto, par being 109.59.[3] At the same dates the Bank of Upper Canada was selling bills on London for 115 to 116 in specie. This depreciation of inconvertible bank notes continued through 1837, the rate averaging 6½ to 7½ per cent., but in August touching 10 per cent.[4]

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[1] Journal, U.C., 1839, Vol. II., part 2, p. 770.

[2] *Ibid.*

[3] Journal, U.C., 1837-38, Appendix 3rd, Report of the Select Committee on Finance, p. 96.

[4] The accompanying table of rates of premium on sterling exchange will illustrate the degrees of depreciation. Up to March, 1838, the quotations of the Bank of Upper Canada furnish the specie prices. Then from June to October, inclusive, 1838, and from June to December, inclusive, 1839, the Bank of Montreal provides the specie rate of sterling exchange

The depreciation fell in January, 1838, to 2 per cent., or less. But goods and produce could usually be bought on equal terms with either the notes of a specie paying or a non-specie paying bank.[1] In August the banks in Upper Canada were redeeming

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upon London. The depreciation is approximately expressed by the difference between the higher and the specie rate, the selling rate in one Province being always compared with the selling rate in the other, or the buying rate with the buying rate:

	Bank of Montreal.		Bank of Upper Canada.		Depreciation
	Buying Premium	Selling Premium	Buying Premium	Selling Premium	
	%	%	%	%	%
1837—Jan	11	11½	9½	12½	..
Feb	11	12½	10	12½	..
Mar	12	12½	10	12½	..
Apr	12	13½	10	12½	..
May	13¼	..	11	12½	2¼
June	16	..	13	..	3
July	22	20-22½	13	14	6-8½
Aug	20	22½	12	16	6½-8
Sept	21	21-18	12	15	3-6
Oct	13	18-15½	10	12½	3-5½
Nov	15	16-17	8	12½	3½-4½
Dec	12	18	8	12½	5½
1838—Jan	10	15-12½	8	12½	0-2½
Feb	8½	9½-11	8	11½	0-½
Mar	7½	8½-9	7½	11½	..
Apr	6½	8-7	7½	12½	..
May	8½	7½-8½	8	12½	..
June	10	8½-12	10	12½	½-4
July	11¼	11 12	10	13½	1½-2½
Aug	11¼	10½-11½	10½	12½	1-2
Sept	10½	10½-11½	11	12½	1-2
Oct	10½	10½-11½	11	12½	1-2
Nov	9¾	11½-12	11	13½	..
Dec	10½	12-12½	11	14	..
1839—Jan	9½	12	11	13½	..
Feb	10	11-12	11	13	..
Mar	9¾	10¾-11½	11	12½	..
Apr	9½	10½-11	10	12½	..
May	9	10	10	12½	..
June	8¾	10	10	12½	2½
July	9	10	10	12½	2½
Aug	9	10½	10	12½	2½
Sept	8½	10½	10	12½	2½
Oct	9½	12	10½	12½	2
Nov	8	10	10½	11	..
Dec	8	10-11	10½	12½	..

[1] Journal, U.C., 1837-38, Appendix, p. 96, 3rd Report of the Select Committee on Finance.

their notes in any amount by bills of exchange on London and New York, and within 1 per cent. of the rate at Montreal (then on a specie basis).[1] The Commercial Bank afterwards made a practice of redeeming for its customers only. A curious but profitable business was carried on in Lower Canada on the basis of the 2 per cent. discount on the inconvertible Upper Canada notes circulating in the province. The Bank of the People was somewhat weakened after the defeat of the insurgent section of the Reform party. Some time in 1838 it was sold to the Bank of Montreal, who, though empowered by the Province in 1837 to collect debts due them, notwithstanding the expiry of their charter, were legally incapable of establishing an office of their own in Upper Canada. They worked under the name of the Bank of the People, and besides the usual profits, acquired added gain by the easy process of buying up the People's notes, really their own, at the discount in Lower Canada, and remitting them to the Upper Province for re-issue.

The restraint imposed by the mutual competition of the banks was exercised through the weekly exchanges carried on between them. Now a regular redemption effectively prevents inflation of a bank note currency, and imposes upon the participating banks, if they are to continue in existence, the necessity of prudence in their conduct. The experience of New England with the Suffolk banking system has proved this and proved it for all time. The power to refuse at the counter the notes of a suspended bank was a power of coercion. The banks of Upper Canada employed it to enforce the settlement of the weekly balances in exchange. In Lower Canada, also, the specie payment of balances could not be exacted, and notes could not be received because they were not redeemable. But redemption was obtained notwithstanding. The debtor banks were forced to hand over in settlement some of their best discounted paper. And these notes were redeemed in due time, by the makers, leading export merchants, by sterling bills drawn against shipments of grain, potash, ginseng and timber.

The good effects of their careful policy, and the restraints imposed by law, by circumstances and by their mutual competition, were evident in the strength and stability of the banks, as well in the depression that followed the crisis as in the revival of commerce and agriculture that finally came. The four factors have served now to explain the moderate dividends paid during the suspension, because in 1837, 1838 and 1839 they served to prevent an immoderate expansion. With this in their favor, the banks found the resumption comparatively easy, the country, innocuous.

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[1] Note I., p. 136, Letter of the Bank of Upper Canada, p. 611.

§ 16.—INCIDENTAL DETAILS

The Government of Upper Canada was in far worse straits during the suspension than the banks. It was reduced to the negotiation of its debentures through the local banks, who remitted the securities to various English houses, and drew sterling exchange against them. The proceeding provoked the protests of the Barings, across whose counters the interest was payable, and who objected, as they wrote, to "having our names inscribed on stock, the issue of which had not our previous knowledge and consent."[1] Various proposals to issue inconvertible notes for circulation on the credit of the Government were defeated in 1837 and 1838. In reply to Sir George Arthur's letter of the 20th November, 1838, Lord Glenelg advised him that it was impossible to grant him provisional authority to give the Royal assent to an enactment permitting the issue of such notes, even though the proceeds were intended for public works or local improvements.[2] The second financial measure of 1839, however, was an Act authorizing the issue of Treasury notes for £1 each to the amount of £250,000 stg. Concerning this Act Lord John Russell wrote to the Governor-General, "Her Majesty cannot be advised to confirm it. The issue of such an amount of small, inconvertible currency, as a resource for sustaining the public credit, is not to be justified even by the present exigency of affairs. * * * * * ."

"It is of great importance that the scheme devised to meet the pressure of the passing day should not be such as to preclude the early return to a more salutary course of financial operations."[3]

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[1] Journal, U.C., 1839, Appendix, Vol. II., part 2, p. 547.

[2] *Ibid*, p. 553, Letter of the 31st January, 1839.

[3] Journal, Can., 1841, p. 395.

It had been necessary, some time previously, to authorize the Receiver-General to secure a loan on the Government's stock in the Bank of Upper Canada. (1 Vic., cap. 1, U.C., Assented to 6th March, 1838.) In 1840 the Act was repealed and the Receiver-General authorized to sell the stock, with the sanction of the Governor-in-Council. Since 1822, the Province received in dividends and bonuses £38,315 on its subscription to 2,000 shares of the par value of £25,000.[1] It received in 1840, £25,250 for its stock.[2] The authority of the Lieutenant-Governor annually to nominate four of the fifteen directors was repealed, and the Bank of Upper Canada lost, in law, its official connection with the Government.

This was one of the measures preparatory to the Union of the Canadas, the constitutional change which, since the restoration of peace, had been undertaken as the plan most likely "to relieve the financial embarrassments of Upper Canada, to enable her to complete her public works, to enable her to develop her agricultural capabilities, to restore constitutional government to Lower Canada, to establish a firm, impartial and vigorous government for both, and to unite the people, within that one common feeling of attachment, to British institutions and British connection."[3] On the fifth of February, 1841, the disappearance of the Upper and Lower Provinces, the birth of a new Province of Canada, the creation of a common Legislature and the completion of the political revolution known as "Responsible Government" were proclaimed by the Governor-General to take effect upon the tenth. In the next chapter we shall discuss the course of banking and banking legislation in the new Province down to 1850.

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[1] Journal, Can., 1841, Appendix O.

[2] *Ibid*, Appendix B.

[3] Journal, U.C., 1839-40., p. 17, Message of His Excellency the Governor-General, dated the 7th December, 1839.

CHAPTER IV

PROVINCE OF CANADA, 1841-1850

§ 17.—THE BANK OF ISSUE PROPOSED BY LORD SYDENHAM

AMONG the questions which came before the first Parliament of the Province of Canada were provision for the general revenue and for the completion and extension of the public works. The Governor-General, Lord Sydenham (Charles Poulett Thompson), was a friend of Mr. Samuel Jones Loyd (Lord Overstone), and had shared his peculiar theories upon currencies and their regulation.[1] The eminence and influence of the author, and the connection of the effort with the movement which, in England, culminated in Peel's Bank Act of 1844, demand that the financial and monetary expedient devised at this juncture by Lord Sydenham, should receive explanation in some detail.

With the professed objects of obtaining (*a*) a paper currency perfectly secure of convertibility into the value it represented, and free from injurious fluctuations; (*b*) the whole profit of the issue for the benefit of the state (some £30,000 to £35,000 yearly, and capable of increasing to double or treble the amount); (*c*) not less than £750,000 to be placed at the disposal of the state for the public works; he suggested to the Select Committee on Banking and Currency a series of resolutions.[2] In them was outlined the scheme by which the objects were to be attained, viz.:—

(*a*) the establishment of a Provincial Bank of Issue under three commissioners, who should be vested with the sole power of issuing notes payable on demand;

(*b*) for sums of $1 and upwards to an aggregate issue of

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[1] "Reminiscences of his Public Life," by SIR FRANCIS HINCKS, K.C.M,G., Montreal, 1884, p. 69.

[2] "Memoir of the Life of the Right Honorable Charles, Lord Sydenham, with a narrative of his administration in Canada," edited by G. POULETTE LEROPE, London, 1844, p. 314.

£1,000,000 currency, and in excess of that amount only to redeem notes or to purchase bullion or coin ;

(*c*) one-fourth of the issue to be against bullion or coin, and three-fourths against Government securities purchased by the bank or paid into it, the interest on securities to be used for management, and the balance remaining after meeting expenses to be paid into the public account ;

(*d*) no bank to issue notes after the 1st March, 1843 ;

(*e*) 2½ per cent. on their circulation to be paid yearly to banks with charters expiring after the 1st March, 1843, for the term of their charters ; should such term be less than five years after the 1st March, 1843, then for ten years ;

(*f*) charters expiring before the 1st March, 1843, to be continued with the power of issue to that date, but after that date without the power of issue ;

(*g*) the Bank of Issue not to discount, receive deposits or deal in exchange.

In a message of the 20th August, 1841, Lord Sydenham proposed to the Legislative Assembly the assumption by the Province of the issue of notes payable on demand. The acquisition " of a capital representing a revenue of not less than £35,000," is here advanced, as the most considerable result of the plan.[1] But in private letters, the noble Lord had described his purpose as " the establishment of a perfectly sound paper currency by means of a State Bank of Issue, the principle, in short, for which I contended in the Cabinet, in the first instance, in 1833, and which Sam. Loyd has since so ably supported in a pamphlet."[2] This acknowledgment forms conclusive evidence that the resolutions of 1841 were neither more nor less than a plan to establish in Canada the methods of note regulation advocated by the British " Currency School."

It is no part of our purpose to discuss here the *cause célèbre* of " Currency Theory " *versus* " Banking Principle." But it must be said that so far as the experience of either Upper or Lower Canada taught anything, it was that their bank note currency was satisfactory, worked well, and was safe. The freedom from fluctuations would have attracted Canadians of that day as little as it would those of the present. What they wanted, what in fact they had, was a bank note currency that would fluctuate in correspondence with the number and amount of transactions wherein it was used. Compared to this, the rigidity and inelasticity of a Government issue were distinctly objectionable. The promised security was merely a promise. Government currencies had hitherto been proposed in the Canadas only when the Government was in financial straits. For the currency to be secure, the issuer, either of the notes or of the security, must be solvent. The banks had come out of the crisis well enough. None had defaulted on their notes. Never had a chartered bank failed in the Canadas. Never, except in a time of war and commercial disaster, had their notes fallen below par with specie. For Upper Canada, at least, it was acknowledged that by completely stopping discounts for a time, the banks need not have suspended then.

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[1] Journal, Can., 1841, p. 398.

[2] Hincks, *ut supra*, p. 69.

Notwithstanding, the Committee, the chairman of which, Mr. Francis Hincks, was a warm advocate of the Governor-General's views, reported to the Assembly in favor of the resolutions. The measure there met opposition. It involved private and class interests. It attacked the chartered banks, who were strong in the assembly. They fought it because the loss of the issue privilege would lessen their profits, force them to reduce the number of their branches, and diminish the loanable credit at their command. It would cause distress more or less serious to their customers, the commercial classes, through the curtailment of discount accommodation thus rendered necessary. Further, it was feared that a provincial bank would materially increase the power of the executive. The effect of political feeling was joined with the efforts of the bank interest. Conservatives, French Canadians and some recalcitrant Reformers,[1] united in Committee of the Whole House to pass the resolution of the 31st August, "that it is inexpedient to take into further consideration during the present session the establishment of a Provincial Bank of Issue, or the issue, in any way, of a paper currency on the faith of the Province."[2]

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[1] HINCKS, *ut supra*, p. 70.

[2] Journal, Can., 1841, p. 464.

As a fiscal measure, partly in lieu of the defeated expedient, the Legislature that session decided to impose upon the bank notes issued and circulating in the Province a duty or rate of 1 per cent. per annum. (4 & 5 Vic., cap. 29.) The tax was levied on the average of circulation as shown by statements of the notes outstanding at the end of each month, and furnished to the Receiver-General on the 15th May and the 15th November of each year. Those making wilful, false statements, were liable to the penalty for perjury, while refusal or neglect to furnish statements incurred a fine of £1,000.[1]

§ 18.—THE LEGISLATION OF 1841 AND 1843

In their final report (27th August, 1841), the Select Committee on Banking and Currency expressed themselves in favor of adopting some uniform system of banking in the Province. They recommended, therefore, that the prayer of the petitions from the chartered banks of the Province, for an extension of their capitals, should be complied with under certain restrictions, most of which had been recommended in a despatch from H.M. Principal Secretary of State for the Colonies.[2] This despatch was the circular of the 4th May, 1840, issued over the signature of Lord John Russell, with the expectation that provision for the observance of the regulations it contained, should be made in all colonial bank charters. Among British North American documents, the Assembly Journal of New Brunswick is the only one to contain the original circular.[3] The report which the Canadian Committee based upon it is worthy of full description here as the first group of principles adopted by the Province as the norm for its banking legislation. In connection with the circular of the 30th May, 1846, the regulations of 1840 furnish the key to nearly the whole development of banking law in British North America, from the date of their publication to the period of confederation. Following are the restrictions recommended by the committee :

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[1] The revenue derivedt rom the rate was in 1841-42, £9,560; 1842-43, £7,572; 1843-44, £10,484; 1844-45, £13.020; 1845-46, £15,899; 1846-47, £16,065; 1847-48, £12,473. Return to an Address of the Honorable Legislative Assembly, dated the 29th January, 1849. Journal, Can., 1849, Appendix. In most cases the duty was equivalent to a net income tax of 7 to 8 per cent.

[2] Journal, Can., 1841, Appendix O.

[3] Journal of the House of Assembly of the Province of New Brunswick, 1841, p. 41

1st. The amount of capital of the company to be fixed ; and the whole of such fixed amount to be subscribed for within a limited period, not greater than 18 months from the date of the charter or the Act of Incorporation.

2nd. The bank not to commence business until the whole of the capital is subscribed, and a moiety at least of the subscription paid up.

3rd. The amount of the capital to be paid up within a given time from the date of the charter or Act of Incorporation, such period unless under particular circumstances to be not more than two years.

4th. The debts and engagements of the company on promissory notes or otherwise, not to exceed at any time thrice the amount of the paid-up capital, with the addition of the amount of such deposits as may be made with the company's establishment by individuals in specie or Government paper.

5th. All promissory notes of the company, whether issued from the principal establishment or from the branch banks, to bear date at the place of issue, and to be payable on demand in specie at the place of date.

6th. Suspension of specie payments on demand at any of the company's establishments, for a given number of days (not in any case exceeding 60) within any one year, either consecutively or at intervals, to forfeit the charter.

7th. The company shall not hold shares in its own stock, nor make advances on its own shares.

8th. The company shall not advance money on security of lands, or houses, or ships, or on pledge of merchandise, nor hold lands or houses, except for the transaction of its business ; nor own ships or be engaged in trade, except as dealers in bullion or bills of exchange ; but shall confine its transactions to discounting commercial paper and negotiable securities, and other legitimate banking business.

9th. The dividends of the shareholders are to be made out of profits only, and not out of the capital of the company

10th. The company to make and publish periodical statements of its assets and liabilities (half-yearly or yearly), showing under heads specified in the annexed form, the average of the amount of its notes in circulation, and other liabilities at the termination of each week or month, during the period to which the statement refers, and the average amount of specie or other assets that were available to meet the same. Copies of these statements are to be submitted to the Provincial Government, and the company shall be prepared, if called upon, to verify such statements, by the production, as confidential documents, of the weekly or monthly balance sheets from which the same are compiled. And also to be prepared upon requisition from the Lords Commissioners of Her Majesty's Treasury, to furnish in like manner such further information respecting the state or proceedings of its banking establishments as their Lordships may see fit to call for.

11th. No by-law of the company shall be repugnant to the conditions of the charter or Act of Incorporation or the statutes of the Province.

12th. * * * * * The provisions of charters or Acts of Incorporation should be confined as far as practicable to the special powers and privileges to be conferred on the company, and the conditions to be observed by the company, and to such general regulations relating to the nomination and power of the directors, the institution of by-laws, or other proceedings of the company as may be necessary, with a view to public convenience and security.

13th. No company shall be allowed to issue promissory notes on demand for an amount greater than its paid up capital.

Form of Return.

Return of the average amount of the Liabilities and Assets of the Bank of during the period from to

Promissory notes in circulation not bearing interest..	£———
Bills of exchange in circulation " " " ..	———
Bills and notes in circulation bearing interest	———
Balances due to other banks	———
Cash deposits not bearing interest................	———
" " bearing interest...................	———
Total average liabilities	£———
Coin and bullion	£———
Landed and other property of the corporation	———
Government securities..............	———
Promissory notes or bills of other banks	———
Balances due from other banks	———
Notes and bills discounted or other debts due to the corporation not included under the foregoing heads	———
Total average assets......................	———

The second general law enacted in the Province with respect to banks was an Act to authorize the banks previously chartered by Acts of either of the late provinces to carry on their business throughout the new province. (4 and 5 Vic., cap. 99.) The condition was that notes of Upper Canada banks issued in Lower Canada should bear date at the place of issue, and be payable there as well as at the principal establishment of the corporation.

The three Lower Canada banks petitioned in 1841 for the renewal of their charters, and permission to increase their capital stocks. Other petitioners sought incorporation for a proposed Bank of the Niagara District. The Acts passed in answer to the several prayers embodied all the provisions and restrictions laid down in the committee's report, continued the charters and extended the corporate powers of each bank to the whole province. The definition of the powers was strict, though not, perhaps, too severe when the conditions and temptations in which the banks worked are considered.[1] It was enacted that no bank officer should act as proxy, that the bank should not hold the stock of other banks, except when taken for *bonâ fide* debts contracted in the usual course of business, and that no notes under five shillings should be issued. It was further enacted that notes under £1 should not exceed one-fifth of the paid-up capital, and that the total circulation, on pain of charter forfeiture and the joint and several liability of the directors, both to the public and the shareholders, should not exceed the capital stock paid-in.[2] Branch banks were permitted and subjected to the restrictions as to note issue.[3] A considerable holding of paid-up stock was continued as a qualification for the directorate. Charters were to expire at the end of the first session of Parliament after the 1st June or 1st December, 1862. The renewed charters, it will be observed, continued in force all the provisions for the public security previously adopted in either Lower Canada or Upper Canada. Among these were the prohibition of loans to a foreign state, and of voting by alien shareholders, the cessation of business by way of discount or otherwise during a suspension of specie payments, the enforcement of subscriptions to capital stock by requiring an immediate payment of 10 per cent., the penalties in the bank's favor for default upon calls, and the bank's prior lien upon stockholders' debts. For the Lower Canada banks the most important, and probably the most objectionable innovation, was the imposition of the double liability upon their shareholders, a restriction which they had escaped at the time it was required of the younger banks of the Western Province in 1833-34.

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[1] The clause was in effect: "And be it enacted that the said corporation hereby constituted shall not either directly or indirectly hold any lands or tenements (save and except such as by the first section of this Act, they are specially authorized to acquire and hold,) or any ships or other vessels, or any share or shares of the capital stock of the corporation or of any bank in this Province; nor shall the said corporation, either directly or indirectly, lend money or make advances upon the security, mortgage, or hypothecation of any lands or tenements, or of any ships or other vessels, nor upon the security or pledge of any share or shares of the said corporation, or of any goods, wares or merchandise; nor shall the said corporation, either directly or indirectly, raise loans of money or deal in the buying, selling or bartering of goods, wares or merchandise, or engage or be engaged in any trade whatever except as dealers in gold and silver bullion, bills of exchange, discounting promissory notes and negotiable securities, and in such trade generally as appertains to the business of banking. Provided always, that the said corporation may take and hold *hypothéques* and mortgages on real estates and property in this province, by way of additional security, for debts contracted to the corporation in the course of their dealings."

[2] The Bank of the Niagara District was permitted to issue notes for less than £1 to ¼ of paid-in capital, 4 and 5 Vic., Cap. 96, § xiii.

[3] The notes of the Quebec Bank were to be payable at the place of date and issue as well as at the head office of the bank. In 1849 this provision was amended to conform to that in the other bank charters. After 1842, the greater number of what had been, technically, offices of discount and deposit, were changed into branches, *i.e.*, banks in every sense of the term. The head offices ceased to be the sole places of date and issue, but notes otherwise issued were payable only at the branch where they were dated and not at the principal office.

The Royal assent to the four laws was not proclaimed until the 27th April, 1842. In October assent was granted to Acts extending, on similar conditions, the charters of the Bank of Upper Canada and Commercial Bank of the Midland District, permitting additions to their capitals and subjecting their shareholders, like those of other banks, to the double liability. The increased banking capital thus authorized was for the—

City Bank, -	4 & 5 Vic.,	cap., 97	£100,000
Quebec " -	"	" 94	150,000[1]
Bank of Montreal "	"	" 98	250,000
Bank of N. D. "	"	" 96	100,000
Commercial Bank,	6 "	" 26	300,000
Bank of U. Canada,	6 "	" 27	300,000
Total			£1,200,000
Total existing capital, 1st July, 1841, say			£1,985,000

In 1842, certainly, there was no monopoly of banking investments. Whoever wished might buy. Nor was there other monopoly. The freedom with which charters were afterwards granted shows that the business was opened to more promoters than could provide the capital wherewith legally to qualify to enter it.

The Lower Canada banks and the Bank of the Niagara District had been granted but two years within which to secure the new capital authorized. The other Upper Canada banks got five years, and in 1846 the term was extended to 1850. (9 Vic., caps. 86 & 87.) In 1846 these two, together with the Bank of the Niagara District, were authorized to set aside £150,000 each and £50,000 of stock respectively, to be known as "English stock," the dividends to be made payable in London and books to be opened in that city for the transfer of shares. (7 Vic., cap. 62.) This is a second indication of the reviving prosperity of the Province and the demand for loanable capital of which one of the first signs is the increase of stock authorized in 1841 and 1842.

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[1] Already authorized by Royal Charter.

§ 19.—BANK RETURNS FOR 1841; THE BANK OF BRITISH NORTH AMERICA AND LA BANQUE DU PEUPLE

Altogether there were ten banks that reported to the committee of 1841. One of these, the Bank of the People, in Toronto, had already been sold to the Bank of Montreal, and reported only the amount of its stock. Two others, the Farmers' Joint Stock Banking Company and La Banque du Peuple, were private banks acting under a deed of settlement and articles of co-partnership, respectively. A fourth, the Bank of British North America, was a company formed in 1836, with a nominal capital of £1,000,000 stg., by British capitalists interested in the prosperity and commerce of the North American colonies.[1] £690,000 of the capital were at first paid up and employed from 1836 to 1840 in a banking business extending to both the Canadas, New Brunswick, Nova Scotia and Newfoundland.[2] An Act of the Imperial Parliament authorized the bank to sue and be sued in the name of an officer in England, and similar Acts were obtained from the provincial Legislatures in 1837 and 1838.[3] The Nova Scotia Act recites that the company had introduced the system of cash credits and of allowing interest on deposits, usually known as the Scotch system of banking. To obviate the difficulty of acting under many different statutes, the directors applied for a Royal Charter in 1840. They obtained it, one condition being that the capital of a million pounds should be fully paid up, and another, that no notes under the value of £1 currency should be issued. The liability of the stockholders was limited to the amount of their subscriptions.

The condition of the banks on days near the 1st July, 1841, was as follows:—[4]

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[1] *Vide* R. M. MARTIN, History, Statistics and Geography of Upper and Lower Canada, London, 1838. On p. 277, the author claims for himself and a WM. MEDLEY, ESQ., the credit of first proposing and of interesting others in the establishment of the British Bank.

[2] Journal of the House of Commons of the Dominion of Canada, 1869, Appendix I, p. 67.

[3] 7 Wm. IV., cap. xxxiv., U.C.; 8 Wm. IV., cap. xvi., N.B.; 1 Vic., cap. xxiv., N.S.; 1 Vic., cap. xxv., L.C.

[4] Journal, Can., 1841, Appendix O, statement F.

July 1, 1841:

Banks	Capital	Circulation	Total Specie	Deposits	Discounts
	£	£	£	£	£
Bank of B. N. America..	690,360	50,564	45,828	184,899	575,752
Montreal Bank..........	500,000	227,048	125,175	234,686	936,553
Peoples', Toronto.......	50,000	....	....	....	....
City Bank	200,000	108,572	20,378	50,700	340,391
Banque du Peuple......	115,759	58,211	8,170	25,360	183,378
Com. Bk of Midland Dist.	200,000	205,429	82,890	98,671	461,615
Bank of Upper Canada..	200,000	142,849	55,125	144,093	406,927
Farmers' Bank..........	45,122	14,350	7,867	3,079	54,281
Gore Bank..............	100,000	77,177	26,385	14,481	165,236
Quebec Bank...........	75,000	37,787	15,069	55,219	145,362
Total currency	2,325 450	921,991	386,891	811,191	3,269,499

Viger, De Witt et Cie., the French partnership *in commendam*, were incorporated in 1843 as "*La Banque du Peuple*." The principal office was to be as formerly in Montreal, and the authorized capital £200,000, the full payment of which was required within two years from the passing of the Act. (7 Vic., cap. 66.) The character of the partnership and the division of powers, profits and liabilities between the two classes of partners have been sufficiently described near the close of chapter II. This peculiar constitution, in its origin a mediaeval device to evade the prohibition of usury, was continued by the charter, and the stockholders have obstinately clung to it ever since. The qualification of the principal partners or "members" was the ownership of not less than forty shares each, of a total value of £500. New members might be admitted and old ones withdraw, proper notice being given of the change, but the total number of members was never to be less than seven nor more than fifteen. The corporation as thus constituted was subjected to the same restrictions as to note issue, total liabilities, suspension of redemption in specie, etc., and granted the same powers, as the joint-stock banks.

§ 20.—CORRESPONDENCE WITH RESPECT TO THE DOLLAR NOTE CIRCULATION

The circular of Lord John Russell contained certain regulations respecting the issue of bank notes under £1 currency, which had been embodied neither in the Committee Report of 1841, nor in charters passed in that year. But as those Acts had been fully considered by the local Legislature and the Governor-General, as a disallowance might have caused embarrassment in Canada at the time, and as the power of regulating the note issue in the future was reserved by the charters to the Legislature, the Queen was advised to confirm them.[1] Her Majesty's Government, the Governor-General was informed, attached great importance "to the early reduction of that small paper circulation to which the Acts in question give encouragement," and it was hoped "that the Canadian Legislature will at an early period revise this part of the system of banking in the province, and secure to the people of Canada the benefit of a metallic circulation, which is incompatible with the circulation of paper of this description."[2]

A charter was passed in 1846 the effect of which would have been to extend the small note circulation. The Imperial authorities felt that the Canadian Government had had in four years ample time for considering the tendencies of their system of banking, that the reasons of temporary expediency entertained in 1842 for waiving their objections to five shilling bank notes did not equally apply to the new measure, and that the existence of rights of issue formed no reason for the concession of similar rights to new establishments. Privileges of issue by banks in the United Kingdom before the Acts of 1844 and 1845, had been withheld from banks formed after a certain date. They believed that a dollar note circulation was unsound and dangerous. The same reasons which prompted the abolition of £1 notes in England, called, in their opinion, for the restriction and ultimate discontinuance of the dollar notes in Canada.[3] Earl Grey, however, was unwilling that the bill should be abruptly disallowed. Accordingly he referred it back to Lord Elgin and the executive council of the province, with the promise that if they thought a change inexpedient the Royal assent would not be withheld. The Canadians favored the retention of their dollar notes and assent to the bill was promulgated in Jan., 1848.

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[1] Journal, Can., 1843, p. 49, Despatch, No. 103.

[2] *Ibid.*

[3] Journal, Can., 1847, Appendix W, Despatch respecting the Bill of last session incorporating La Banque des Marchands.

This was the last noteworthy endeavor of the Lords Commissioners of H. M. Treasury, acting through the Colonial Office, to substitute "a currency founded on a sound and metallic basis" for the dollar notes issued by the Canadian banks. Those notes, though objectionable from a theoretical standpoint, were not the cause of practical inconvenience or loss. The dangers of an excessive issue were averted by the limitation of notes under £1 to one-fifth the paid-in capital stock of the issuing bank, and the active system of redemption between the banks. And when, in 1870, the banks finally gave up the small note issue, Canadians did not dispense with paper of such denominations—they simply transferred the issue to the Government.

§ 21.—IMPERIAL REGULATIONS OF 1846

The despatch quoted in § 20 called attention to other deviations from the last regulations respecting colonial banks. These provisions, somewhat different from those of 1840, were communicated in 1846, together with the following self-explanatory letter :—[1]

Circular, 30*th May*, 1846, *with Revised Regulations to be observed in incorporating banking companies in the Colonies.*

My Lord,—On the 4th of May, 1840, Lord J. Russell transmitted to you a copy of certain regulations, the observance of which, in all charters or Legislative enactments relating to the incorporation of banking companies in the Colonies, Her Majesty's Government then considered of much importance. The correspondence which has since taken place on subjects of this nature, and the arrangements adopted by Parliament in regard to Banks of Issue in the United Kingdom, appear to Her Majesty's Government to have rendered necessary some modification of those regulations, with a view to bring them into exact correspondence with the principles on these subjects, established in this country. * * * *

These regulations are forwarded to you, not, of course, as inflexible rules to be in all cases insisted on, but as embodying the general principles to be observed in the preparation of Colonial Acts for the incorporation of banking companies, and Her Majesty's Government consider a compliance with all the more material conditions and restrictions of much importance to the security of the communities in which such banks may be established, and more especially to the poorer classes of such communities. I must, therefore, impress upon you the necessity of using all your legitimate influence to procure their introduction into any Bills which may be brought into the Legislature of the Colony under your Government, for the incorporation of banking companies; and with this view it might be well that you should communicate with the promoters of any such Bills, in which these considerations may be omitted, and point out to them that the instructions which you had received from Her Majesty's Government would place you under considerable difficulty in assenting to any such Bill, should it pass the Legislature in its actual form. I can hardly doubt that such a communication, aided by an explanation of the grounds on which Her Majesty's Government have proceeded in drawing up these regulations, would have the desired effect; but if not, and you should nevertheless feel it your duty to assent to the Act, it would be necessary in transmitting the Act for the signification of Her Majesty's pleasure, that you should accompany it by a full report of the grounds on which you have proceeded.

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[1] Journal, Can., 1847, Appendix W.

I have, etc.,

W. E. GLADSTONE.

Lieutenant-General,
THE EARL OF CATHCART, K.C.B., etc, etc., etc.

Following Mr. Gladstone's letter are twenty regulations. The essential variations from the report of 1841, and the existing legislations, are:

(*a*) When shares are transferred between the period of the grant of the charter and the actual commencing of business by the bank, the responsibility of the original holder to continue for six months, at least, after the date of the transfer, § 8.

(*b*) The total debts of the company not to exceed thrice the paid in stock, "over and above the amount of deposits or banking accounts with the company's establishments," § 13. (The expression in the report is "deposits of specie and Government paper.") The utility of this provision particularly after circulation was limited to paid-in capital.

(*c*) No promissory note to be issued for less than £1 Halifax currency, and none for fractional parts of such pound, § 14.

(*d*) Breach of the special conditions upon which the company is empowered to open banking establishments, or to issue and circulate promissory notes, to forfeit those privileges, which shall cease and determine upon such forfeiture as if the period for which they had been granted had expired, § 18.

(*e*) The charter or Act of Incorporation may provide for additions to the capital of the company, within specified limits with the sanction of the Lords Commissioners of the Treasury, such additions to be subject to all conditions and regulations applying to the original capital, § 20.

The retention in Canada of notes under £1, and the waiver of their objections by the Lords of the Treasury, have been noticed in § 20. The Legislature did not venture to permit increase of capital stocks without its express authority for each instance. But the provision of regulation number 8 was embodied in subsequent charters as a necessary safeguard against subscriptions in bad faith or decoy subscriptions to the stock of new banks. So, too, penalties of charter forfeiture were imposed for breach of the various conditions on which corporate powers and privileges were granted, just as that penalty had been attached to the condition that no suspension of specie payment should exceed sixty days, consecutively, or during the year.[1]

The document just described concludes, for the present, the account of the relations of the Lords of the Treasury to the legislative development of the Canadian banking system. It has been shown that three of the most important groups of restrictions were not imposed upon Canadian banks until after the Treasury regulations of 1833, 1840 and 1846, respectively, had been transmitted to North America. It has appeared that certain new precautions substantially similar to those recommended were taken with regard both to existing banks and new establishments soon after the Treasury circulars were received, *via* Downing Street. In the sketch of the banking systems of Nova Scotia and New Brunswick, it will appear that, about the same time, like restrictions were adopted by those colonies for the government of their incorporated banks. The correspondence of 1833-1834 with Upper Canada, the protest of the colonists that banking is a local matter, the subjection of the Gore Bank to the double liability and other provisions, the supervision of legislation in the years immediately before and after the crisis, finally the action in 1841 of the Select Committee upon Banking, are pertinent incidents, but they form only links in the chain. It must be remembered that before the Banking Acts of 1841 and 1842 came into effect they were submitted to British inspection, and that the regulations of 1846 were, in due time, enacted as Canadian law. From evidence so varied, forcible and clear as the facts presented, two conclusions are not to be avoided. One is, that through the Lords of the Treasury the ripe experience of Britain in matters of banking was used for the direct advantage of the colonists; the other, that in 1850 the more important safeguards in British American bank charters were primarily due, not to the wisdom of local legislatures, but to the judicious intervention of the Imperial Government.

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[1] *Cf.* 10 and 11 Vic., cap. 112, an Act to incorporate the District Bank of Quebec.
18 Vic., cap. 202, an Act to incorporate the St. Francis Bank.
18 Vic., cap. 202, an Act to incorporate the Molsons' Bank.
19 Vic., cap. 76, an Act to amend and consolidate the several Acts incorporating and relating to the Bank of Montreal.
19 and 20 Vic., cap. 120, an Act, etc., (similarly for the Commercial Bank).
19 and 20 Vic., cap. 121, an Act, etc., (similarly for the Bank of Upper Canada).

§ 22.—1847 – 1850

Canada had shared, to a considerable degree, the commercial recovery from the trying losses of 1837-1839. Indications of this were apparent as early as 1841, when the banks secured provision for the increase of their capitals. The business of 1843 was described as sound and legitimate, with few and unimportant failures.[1] The improvement in 1844 was still more active, and the banks were able profitably to employ the large amounts of capital which had been at low interest the year preceding.[2] The growth proceeded, and in 1846 a considerable extension of commerce and agriculture to new districts was a feature of the situation. In February the bank note circulation, only £953,916 four years before, touched £1,681,248, nearly the highest amount reached during the period 1841 to 1848.[1] But the money pressure in England was felt, and though the state of trade seemed satisfactory, shrewd onlookers of Canadian events had some apprehension for the near future.[2] The importations of 1847 were excessive. The consternation caused by the English railway crash spread to Canada. Numerous commercial failures occurred involving large liabilities. Lower Canada, or Canada East, as it was now called, suffered the most, partly because the previous expansion had there been more pronounced. Extreme depression followed in 1848. The effects of the free trade policy of Lord John Russell and his party were first felt in their full force. Canada had lost the partial monopoly in timber and other natural products established in its benefit by the old protective system. The exports of pease fell 25 per cent., of wheat 60 per cent., flour 40 per cent., oats over 75 per cent., barley nearly 80 per cent., and pork 45 per cent. The stop put to British railway extension especially affected the timber trade. A large stock of timber was wintered at Quebec; in every article but white pine, the exports of 1848 fell from those of 1847 by percentages ranging from 14 for deals, 25 for elm, 33 for ash, to 50 per cent. for oak timber.[3] The imports of 1848 fell to £2,958,798, £837,049 less than in 1847.

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[1] *Bankers' Magazine*, Vol. 1, London, 1844, p. 325.

[2] *Ibid*, Vol. 3, Report of the Meeting of the Bank of British North America.

Such an economic shock reacted, of course, upon the banks. Their circulation, which stood in March, 1847, at £1,684,413, had diminished by £321,000 on the 31st December, and fell to £1,114,208 in June, 1848. They could have accepted this contraction alone, without complaint. It was, however, accompanied by losses of other kinds. In 1848 and 1849 the Bank of British North America was obliged to set aside £43,100 for bad debts, reduce its dividend to 5 per cent., and take £6,000 from its rest.[4] The City Bank wrote off a rest of £27,875, the Gore

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[1] Journal, Canada, 1849, Appendix, Return to an Address of the Legislative Assembly, dated 29th January, 1849.

[2] *Bankers' Magazine*, Vol. 6, p. 106.

[3] Journal, Can., 1849, Appendix Z, Montreal Brokers' Circular, 25th March, 1849.

[4] *Bankers' Magazine*, Vol. 10, p. 443.

Bank lost the whole of its rest.[1] In 1849 the capital of the Gore Bank was reduced from £100,000 to £80,000, on account of the losses it had suffered (12 Vic., cap. 149); and that of the City Bank from £500,000 of authorized stock to £375,000, the paid in stock from £294,000 to £221,000, the value of each share from £25 to £18 10s. (12 Vic., cap. 145). The Quebec Bank paid dividends of only 3, 2, and 4 per cent. in 1848 to 1850. The dividend of the Bank of Upper Canada was reduced from 7 per cent. to 4 and 4½ in the years succeeding the crisis, and more than £6,000 was deducted from its rest. The Bank of Montreal suffered more after the fashion of the Lower Canada banks, reducing its rest by £60,000, and its dividend from 7½ per cent. in 1846, to 6 per cent. in 1849.

But not a single chartered bank failed, specie payments were maintained throughout, and the losses suffered were borne by the shareholders alone.

In 1848 the Legislature had passed Acts permitting various additions to the capitals of the Montreal, Quebec and City Banks, and in 1849 to that of the Gore Bank. Additions amounting, in all, to £750,000, were authorized, and in the latter year the time for paying up these as well as the additions previously permitted to the Bank of Upper Canada, and the Commercial Bank, were extended to April, 1852.[2]

A general Act of 1850, concerning the chartered banks, declared their right and power to take, hold and dispose of mortgages and *hypothèques* upon personal, as well as real property, by way of additional security for debts, contracted to them in the course of their business. They were authorized to purchase lands or real estate offered for sale under execution at the suit of the bank purchasing, or exposed for sale under a power of sale given to the bank. The banks might finally acquire and hold an absolute title, either by release of the equity of redemption or foreclosure in the Court of Chancery. (13 and 14 Vic., cap. 22.) This legislation is to be explained not as an extension of the loaning powers of the banks, but as protection to them against loss upon overdue debts It is best understood in connection with the agitation for increased banking facilities, and greater assistance to the less important communities, the discussion of which is reserved for the next chapter.

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[1] Journal, Can., 1859, Appendix, No. 67.

[2] 10 and 11 Vic., cap. 115, Provincial Statutes of Canada.
10 and 11 Vic, cap 114, " " "
10 and 11 Vic., cap. 116, " " "
12 Vic., cap. 149, " " "
12 Vic., cap. 170, " " "
12 Vic., cap. 184, " " "
12 Vic., cap. 185, " " "

CHAPTER V

PROVINCE OF CANADA, 1850-1867

§ 23.—THE FREE BANKING ACT OF 1850[1]

In the session of 1850, the Honorable William Hamilton Merritt introduced in the Legislative Assembly a bill "to establish Freedom of Banking in this Province, and for other purposes relative to Banks and Banking."

The group of large chartered banks which had hitherto carried on the banking business of the Canadas seemed to the general public to be insufficiently equipped with capital. Their efforts, indeed, during the eight years preceding to secure additional capital authorized by the Legislature, had met only a partial success. The new banks incorporated in 1841 and 1847, three in all, had failed to secure the capital required by law before they could begin operations, and had forfeited their charters by non-user. These facts were not considered as evidence to the effect that Canada already had all the banking investments it could attract. Complaints of a lack of banking facilities were frequent, and there was a wide-spread agitation for an increase of bank capital, for the territorial extension of banking facilities, and particularly for the incorporation of small banks in the lesser towns, where local opportunities for accommodation were much desired.

Important safeguards in the existing system were the large capital stocks of the banks, the small number doing business, the broad fields from which they drew their business, and the prudent and cautious manner in which that business was, as a whole, conducted. It was thought that in maintaining the system it would be very difficult for the Legislature to refuse to incorporate small banks for the small towns. But to allow such institutions the important privileges of the chartered banks, especially that of circulating notes as only a general charge against assets, seemed too great a risk. If small banks were to be established, it was necessary to devise some other plan for issuing a sound currency.[1] There was no bank of such predominant position that to it alone, as to the Bank of England, the function of issue could be entrusted; after the failure of Lord Sydenham's proposals of 1841, there was no probability of establishing a Government Bank of Issue; and the Government itself was in such pressing financial need that any step towards relief would be welcome.[2]

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[1] §§ 23-27, inclusive, have been re-written from the article "Free Banking in Canada," published in the *Journal of the Canadian Bankers' Association* for March, 1894.

The Banks of Montreal and British North America then (June, 1849) exclusively had the account of the Government. The one refused absolutely to furnish exchange for £10,000 on the three months' note of the Receiver-General, to meet interest payments in England; the other, in respect to a similar sum, at first demanded collateral security, and finally also refused. But when the specie, come by lucky chance into the Government chest, was produced, both banks found the required exchange.[3]

Already, in 1830, it had been proposed to establish a "system of banking founded upon capital invested in permanent securities, and limited according to amount of capital stock so invested." The plan was then rejected as "too difficult in the present state of the Province."[4] Canadians in the meanwhile had noticed the evils sustained by the public of the United States from systems of banking which resembled their own, in so far, at least, as each were chartered systems. More particularly had they observed the banking legislation of New York.

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[1] Journal, Can., 1851, Appendix LL, p. 202, Memorandum of the Inspector-General upon 13 and 14 Vic., cap. 31.

[2] The whole period, 1847 to 1852, was one of severe depression for Canada, who had lost, by the free trade policy of Great Britian, the advantages enjoyed in the era of protection. "Three fourths," it was said, "of the commercial men are bankrupt owing to free trade." They had been stripped of their partial monopoly in such commodities as Canada produced. The people were economically desperate, and highly susceptible to fomentation into political discontent. In order to meet just demands upon the Provincial Government, for which the public funds were insufficient, it became necessary in 1848 to issue six per cent. debentures payable in one year after date, and for sums as low as $10 (£2 10s.). (12 Vic., cap. 5.) At the time, of course, these were negotiable only under par.

[3] *Vide* "Reminiscences, etc.," HINCKS, pp. 188, 197, and Journal, Can., 1854, Appendix, E.E.

[4] Journal, U.C., 1831, Appendix, p. 201, 2nd Report of the Select Committee on Currency.

Thus Mr. Francis Hincks, while advocating in 1838 a general banking law, commented upon the recommendation contained in the last message of the Governor, and endeavored to show an analogy between the situation there and in Canada. The "free banking" law of New York had been in force since 1838. After a costly experience, the statute had been so altered and amended that in 1850, with only United States or New York securities receivable on deposit with the State, with a system of immediate note redemption, with each bank confined to a single place and obliged to exercise there the discount and deposit, as well as issue functions, and with the stockholders subjected to double liability, it presented a carefully wrought out system of banking law.

The commercial relations between the Upper Province and New York had long been close and important. When the economic conditions of the two countries were compared, New York, no doubt, appeared to marked advantage. The legislation of New York, therefore, was not unlikely to be regarded by Canadians as recommended by the success, prosperity and credit of the State in which it was in force. Its influence was not necessarily the weaker because the judgment as to results was not entirely logical. The emphatic adherence given to free banking [1] by Millard Fillmore, as comptroller of the State for 1849, was followed by the adoption of laws drawn on the New York model, in Massachusetts, Ohio, Vermont, Wisconsin, and other American States.[2] Canadians also remarked that the system had worked satisfactorily and that its effect had been to raise the value of public securities very materially.[3]

They overlooked the fact that in New York the free banking system had been established primarily as (*a*) an escape from the complete monopoly of banking, discount and deposit, as well as issue, conferred upon the chartered banks in 1818, and (*b*) a remedy for the shameless, corrupt and unendurable practice of regarding bank charters as *spoils* for the victorious party to deal out as rewards for partisan services.[4] The chartered banks of Canada, on the other hand, enjoyed no exclusive privilege save in the function of issue. Even in that there was abundant competition. Nor was there then the suspicion even of corruption or partisanship in the distribution of bank charters. But in spite of the lack of analogous conditions, in spite of the facts that twenty-nine New York banks had failed in the first five years of the law's operation, and that the special deposits of securities realized but 74 per cent. of the defaulted notes,[1] Mr. Merritt's bill was modelled after the free banking laws of New York. Its objects are sufficiently described as (*a*) to provide for the establishment of small banks, (*b*) properly to secure their circulation, (*c*) to relieve, in part at least, the financial difficulties of the Government by widening the market for its securities, and at the same time so stimulating the demand as to raise their value.

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[1] Report of the Comptroller of the State of New York, 1849, pp. 55, 56.

[2] Report of the Comptroller of the Currency, Washington, 1876, p. 35.

[3] Journal, Canada, 1851, *ut supra*.

[4] Comptroller's Report, N.Y., 1849, p. 54.

The measure as passed (13 & 14 Vic., cap. 21) first repealed the old laws of Lower Canada (Ord. L.C. 2 Vic. (3), cap. 57), "to regulate private banking and the circulation of the notes of private bankers," and of Upper Canada (7 Wm. IV., cap 13), "to protect the public against injury from private banks." Henceforth it became lawful only for chartered banks or other corporations or persons authorized under the new Act to issue circulating notes, which were to be of the value of 5 shillings or over. Notes under 5 shillings were prohibited. So also circulation by unauthorized persons was forbidden on penalty of fines of £100.

The significant provision of the Act is the extension of the privilege of note issue "to other persons or corporations thereunto authorized as provided for herein." Individuals or general partners might establish banks, or joint stock companies might be formed to carry on the business, but in any case the bank was to have an office in but one place, and in but one city, town or village. Of the companies was required a minimum capital stock of £25,000, divided into shares of £10 or more. Articles of agreement in notarial form, showing the name, place of business, capital stock, number of shares, names and residences of the shareholders and the time when the company should begin and end, were the legal basis for organization. After the articles were duly filed in stipulated courts of record, the companies became incorporated, and the liabilities of the shareholders limited to double the amount of their subscribed stock. The total liabilities of a joint stock bank were not allowed to exceed three times its capital stock. Every institution working under the Act was required to keep *bonâ fide* an office of discount and deposit, at all times to keep exposed in its place of business a list of its partners or shareholders, and to make detailed semi-annual returns to the Inspector-General, as well as to submit to official inspection at the discretion of the Government.

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[1] Report of the Comptroller of the Currency, 1876, p. 23.

In order to issue notes the banks thus formed were each obliged to deposit with the Receiver-General provincial securities for not less than £25,000 currency ($100,000), par value, in pledge for the redemption of their notes. Interest on the securities was to be paid to the depositor as it accrued, and against the bonds the Receiver-General was authorized to deliver to the bank an equal amount of registered notes, printed from plates furnished by the bank upon paper selected by the Receiver-General. When signed by the proper officer these notes were to become notes of the bank. In every case they were to be payable in specie on demand at the bank's place of business. They were to be marked "Secured by provincial securities deposited with the Receiver-General," and were to be receivable for all duties and sums due to the provincial Government, so long as the issuing bank redeemed its notes. These registered notes were exempt from the rate of 1 per cent. per annum levied upon the average monthly circulation of the chartered banks. The third or fiscal object of the Act is especially plain in that clause which permits the chartered banks to surrender their right of circulation against assets, and to secure from the Receiver-General registered notes in return for deposits of securities. Any of the corporations within the purview of the Act might deposit additional securities from time to time, and withdraw sums of not less than £5,000, provided that like amounts of the notes were returned to the Receiver-General and the required deposit of £25,000 maintained.

If, in case of suspension of specie payment and protest of the notes, the paper was not paid with interest at 6 per cent. within ten days after the requisition issued by the Inspector-General of the province upon receipt of the protested notes, that officer was commanded to close the institution and wind up its affairs, should it have no valid excuse to offer for the default. The process of liquidation was to be completed by a Receiver appointed by the Receiver-General. His duty was *first* to pay off the notes from the proceeds of the securities on deposit. The remaining proceeds were then to be applied with the other assets to settlement of the remaining debts of the bank. But if insufficient funds were realized from the sale of the securities, the general assets of the bank were to be applied to the payment of the notes before they were used for the other claims. This is the first appearance in Canadian legislation of that principle of making bank notes a preferred claim, which, 30 years later, was embodied in the Bank Act of the Dominion.

§ 24.—AMENDMENTS AND SUPPLEMENTARY MEASURES

The " Act to establish Freedom of Banking " could hardly be called perfect. Time proved it ill-calculated to promote the ends of the Legislature which passed it. The amendments passed in the following years show that certain of its defects were recognized. From the very first it suffered severe criticism on the part of the English Lords of the Treasury. The most serious defect of the Act, in their opinion, was the lack of guarantee for the immediate convertibility of the notes on demand. Against the fancied completeness of Government obligations as " security," they cite the fall of Exchequer bills to 35 shillings discount in 1847. Anxious as always that the financial and monetary systems of the colonies should be sound, they warn the Canadian Government against the reverses following too great an extension of the facilities which may be afforded by the use of paper money. The measure might cause Canadian securities to rise temporarily, but they would also be exposed to the risk of depreciation should it become necessary to throw them into the market in order to provide for the payment of bank notes. In the opinion of the Lords of the Treasury, the great protection against over issue was the constant maintenance of a proportionate reserve of specie against the outstanding circulation, with

Government supervision and frequent publication of bank statements. They recommended the requirement of a specie reserve of one-third of the notes issued, and of monthly statements.[1]

The following year, accordingly, an amendment was passed requiring monthly statements from the free banks. (14 and 15 Vic., cap. 69.) It is plain that half yearly returns provided a basis for intelligent criticism to neither the Government nor the public. The period of one year in which to retire their circulation and begin operations under the new plan accorded by the Act of 1850 to banks or companies whose authority to issue notes had been withdrawn, was increased to five years, provided that in each year of the next four they should retire one-fourth of the average circulation, during 1850, of notes not secured by a deposit of bonds. The requirement of a specie reserve of one-third was not adopted.

In the same session, the Assembly passed another Act with a view "to encourage the chartered banks to adopt as far as conveniently practicable, the principles of the General Banking Act in regard to the securing of the redemption of their bank notes." (14 and 15 Vic., cap. 70.) The real purpose, of course, was a further sale of bonds. The means were (*a*) a remission during the next three years of one-half the tax on circulation to those banks willing forthwith to restrict their circulation to the highest amount shown in the last statement, and at the end of three years to three-fourths of the average for 1849 and 1850; (*b*) at the end of the three years, entire exemption from the tax to banks with note circulation thus restricted; (*c*) permission to such banks to issue in excess of the restricted circulation further notes to the amount they should hold of gold or silver coin or bullion, or debentures of any kind issued by the Receiver-General, the value of such securities to be reckoned at par; (*d*) exemption of these banks from the requirement to deposit the debentures and to secure registered notes. But if failures occurred the proceeds of bonds thus held by the banks were to be applied exclusively to the redemption of outstanding notes. Finally, the Act imposed upon the chartered banks the obligation to return monthly, instead of half-yearly, statements of assets and liabilities.

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[1] Journal, Canada, 1851, Appendix, LL, Letter of C. E. TREVELYAN, June 11, 1851.

The Act of 16 Vic., cap. 62 (session of 1853), was an attempt further "to encourage the issue by the chartered banks of notes secured" in this manner. They were permitted to issue notes in excess of the limit laid down by their charters, *i. e.*, the amount of their paid up capital stock, to the amount of the sums held by them in specie or debentures receivable in deposit by the Receiver-General, although the deposit of the securities was not required. The 1 per cent. tax upon circulation, also, was to be calculated only upon the sum by which the average during any period of the outstanding notes of a bank should exceed the average of the securities and specie which the bank had on hand.

For these supplementary measures, the only analogy in New York legislation is the law of 1849, which permitted the Safety Fund banks to continue their business after the expiry of their charters, on condition that they should deposit securities with the Comptroller and reorganize under the general banking law.[1] The Canadian measures, however, seem strongly to reflect the influence upon the Legislature of Sir Robert Peel's Bank Act of 1844, and the statutes of 1845, which dealt with the Scotch and Irish banks. The plan of restricting that part of the circulation "unprotected" by special security, the extension to the banks of the privilege of indefinitely increasing circulation beyond that limit, provided equivalent values in specie or debentures were held, and the repeated efforts to provide as much as possible of the fiduciary currency with bond security, are not, to be sure, conclusive evidence of this influence. Such regulations might have been adopted after independent consideration, or to reach other ends than those sought by Lord Overstone, Sir Robert Peel and their followers. In Canada too the financial purpose, though the laws failed to afford the anticipated help, was highly influential.[2]

But the inference that English example was followed is greatly strengthened when we revert to the position of Mr. Francis Hincks as Inspector-General at this time and member of the Executive Council, and to the influence he enjoyed in the Legislative Assembly. Ten years before he had supported the proposals of Lord Sydenham to regulate the Canadian note circulation by means similar to those suggested by Lord Overstone.[1] He wrote an energetic defence of Peel's Bank Act in 1847.[2] As late as 1870 his views were unchanged.[3] Mr. Hincks, as one of the leaders of the Government, was chiefly responsible for the legislation of 1851-1853.[4] The inference is practically confirmed by the fact that in June, 1851, the colonial office itself advised the Canadians to adopt, as far as possible, the principles of Peel's Bank Act in their regulation of banking and currency. In Sir C. E. Trevelyan's letter for the Lords of the Treasury, transmitted through Downing Street, it is remarked: "Although the establishment of a bank in connection with the Government appears to have been impracticable or inexpedient, it does not follow that some modifications of the scheme adopted in the United Kingdom with respect to the circulation, the leading feature of which is a limitation to the amount of notes issued on the credit of securities, and the maintenance of a deposit of specie equal to all issues exceeding that amount, might not still be attainable in Canada."[5] The authority of the officials in Downing Street and the promptness with which their recommendations were usually carried out in the Province leave no doubt of the marked effect of this factor on the supplementary legislation in regard to "freedom of banking"

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[1] Bank Statistics, 1849-50, 31st Congress, 1st session, H. R. Executive Documents, No. 68, p. 132.

[2] Journal, Can., 1851, pp. 209 and 216.

§ 25.—FAULTS OF THE SYSTEM

The possible dangers or faults of the original Act, pointed out for the Lords of the Treasury in the same letter, and noted by us on a preceding page, were not, on the whole, the source of much trouble in the working of the system. Very few banks, in fact, began operations under the law. The system of chartered banks remained predominant and characteristic. The obstacles to a thorough trial of the so-called "free banking" were, first, the diminution rather than increase of banking facilities which its introduction would have brought about, and, second, the inferior opportunity which it offered for banking profits. The obstacles will be examined in their order.

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[1] "Reminiscences of his Public Life," by Sir Francis Hincks, p. 69.

[2] Montreal *Pilot*, 23rd October, 1847.

[3] Parliamentary Debates of the Dominion of Canada, Vol. I., p. 216.

[4] Journal, Canada, 1851, p. 209; 1853, p. 1040.

[5] Journal, Canada, 1851, Appendix Ll.

The bonds receivable on deposit as note security bore interest at 6 per cent. The minimum deposit for a bank beginning business was £25,000 currency, or $100,000. The small banks, however, which it was expected to establish under this Act, would seldom need a capital greater than £25,000, and, even if they needed it, a greater sum would be hard to get in the localities whence the demand for such institutions came. But before a bank could begin business this hardly-gained capital was to be removed from the locality and locked up in debentures. In return for these, the free bank was to receive an equivalent amount in registered circulating notes. A chartered bank, on the other hand, acquired by the privilege of circulation a power of loaning to the community, in addition to its capital stock, the amount of its authorized note issue. To meet the needs of its district the free bank in our example was to derive from capital and circulation combined a fund of only £25,000, *i.e.*, the amount of its note issue, or rather so much of it as could be kept in circulation, a proportion which rarely reached 90 per cent., and in some cases did not exceed 50 per cent. In brief, £25,000 of the capital of the district was to be taken bodily away and replaced by notes, of which only a part were available for loaning purposes. If carried out, the scheme to provide banking facilities for poor communities was destined actually to diminish the loanable funds in the districts for whose benefit it was devised.[1]

Intimately connected with this fault is the fatal defect of the Act—the slight inducement to investment afforded by its provisions. With its capital locked up in debentures there remained to the free bank, besides its deposits, which need not be considered here, the £25,000 of registered notes for accommodation of the local public. Of these, we have seen that only 50 to 90 per cent. constituted the actual loaning fund which could be turned over several times a year in banking operations, and from which could be derived the additional and incidental profits that banks, in spite of usury laws and other hindrances, will contrive to secure whenever the markets permit. From an equal sum invested in one of the chartered banks could be gained the banking profit on the capital itself, and the circulation issued upon the credit of that capital. The advantage, in favor of the chartered bank, apart from the important consideration of its control of much larger means—none of its capital being locked up in debentures—was approximately the difference between the banking profit on the amount of its capital and the interest on an equal amount invested in Government securities. In other words, the chartered bank would get the greater return from both circulation and capital; the free bank from circulation alone, its capital being invested, by law, at a lower rate of interest.

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[1] *Cf.*, the remarks of Washington Hunt in an official letter from the office of the Comptroller of New York, dated 1st May, 1849. "The tendency of the change (from the Safety Fund system to Free Banking) is to diminish materially the banking facilities enjoyed by the community. To the extent that the chartered banks are required to transform their present capital into permanent securities, as a pledge for the redemption of their bills, they must deprive themselves of the means now employed in the regular operations of banking." Quoted in Bank Statistics *ut supra*, p. 139.

This higher gain to be had from employing their funds in their own business, also caused the chartered banks, as a rule, to reject the encouragement offered by the Legislature so to invest those funds in debentures as to make them practically a permanent loan to the Government. And in a country where the best bank profits were moderate, other investors were slow and unwilling to engage in a form of banking in which the chances for gain were still more restricted.[1]

§ 26.—STATISTICAL VIEW OF THE FREE BANKS

Among the chartered banks the Bank of British North America alone appears in the statements published according to the free banking laws. A supplementary charter enabled it to enjoy under these enactments a valuable privilege withheld from it by the original Royal charter, but exercised by the other banks under their colonial charters since the time of the first incorporation. This was the right to issue notes for less than four dollars. Until the banks surrendered their small note issue in 1870, the British Bank appears to have continued its issues under this Act. At the close of 1854 three other banks were doing business under the Act. Following is the return :—[1]

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[1] *Cf.* on this point, the remarks of MR. MERRITT, the author of the bill, on the 4th March, 1859, in the Legislative Assembly: "The cause why the banks have not succeeded under the Free Banking Act, was because his (the Minister's) predecessors had abandoned the policy they had commenced * * * Why did not other banking companies seek charters under the Free Banking Act? Simply because they made more money under the old system.'

	Bank of British North America	Molsons' Bank, Montreal	Niagara District Bank, St. Cath'rines	Zimmerman Bank, Clifton	Total
	£	£	£	£	£
Capital in Provincial Debentures deposited with the Receiver-General	162,125	50,000	50,000	25,000	287,125
Amount of registered notes outstanding and delivered to the banks by the Inspector-General	153,750	50,000	49,999	24,500	278,249
Circulation		37,861	46,169	22,000	
Liabilities, including circulation		85,446	67,615	29,321	
Assets		136,840	101,642	49,931	

The next year operations reach the highest figure in the whole history, though only four banks appear in the Statement.[2]

	Bank of B. N. America	Molsons' Bank	Niagara District Bank	Zimmerman Bank	Total
	£	£	£	£	£
Capital in Provincial Debentures deposited with the Receiver-General	170,708	50,000	50,000	40,000	310,708
Registered notes outstanding .	169,750	49,794	49,999	40,000	309,549
Circulation		24,332	69,050[3]	40,000	
Liabilities		24,332	77,761	48,817	
Assets		79,100	133,285	54,585	

After 1855 there was a steady falling off in the amount of securities deposited, notes outstanding against them, and notes in circulation. In the statement of 1856 the Provincial Bank and the Bank of the County of Elgin first appear, the former with a deposit of securities for $120,000 and notes for the same amount, the latter with securities for $100,000 and notes for $79,950. The Molsons', Niagara District and Zimmerman Banks, which were chartered in 1855, appear to have been retiring their secured notes. The total bond deposits are $1,114,633.33 (£278,658) and notes outstanding $1,080,684 (£270,171).[1] In 1857 the figures have fallen to $770,319.33 and $769,730.[2] In 1858 they are $730,503.33 and $729,531, and the Molsons' and Zimmerman Banks disappear from the list. In 1859 the bond deposits are $730,503.33, and notes outstanding, $699,531 ; in 1860, $562,603.33, and $495,631, of which the British Bank stands for $440,933.33 and $373,964, about $100,000 less than in the statements for 1857 to 1859.[3]

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[1] Public Accounts, Province of Canada, 1854, p. 225.

[2] *Ibid.* 1855, p. 264.

[3] Also issues under charter.

By December, 1861, the Niagara District Bank had nearly withdrawn its provincial securities, and the Provincial and County of Elgin Banks had only $2,000 and $20,440 of bonds, respectively, on deposit.[4] At the end of 1862 the British Bank held securities for $436,933.33 ; its registered notes amounted to $336,964, of which $130.505 were in circulation.[5] But the Provincial Bank had deposits and circulation of only $9,729, and the Bank of the County of Elgin had disappeared both from the Government statement and the world of business. To all intents and purposes, free banking in Canada had run its course.

§ 27.—REPEAL OF THE ACT TO ESTABLISH FREEDOM OF BANKING, AND DISAPPEARANCE OF THE BANKS ORGANIZED UNDER IT

The failure of the system had received the attention of the Legislative Assembly at least five years before. On March 6th, 1857, the Hon. Wm. Cayley introduced a bill to discontinue the incorporation of joint stock banks and the issue of registered notes. The merchants and monied men of the province were generally in favor of the old chartered system, he said, and even in 1855, the Assembly had decided to perpetuate it. Its decided superiority had been shown by the action of the three banks which had retired their registered notes and continued their business under charters.[1] Wm. Hamilton Merritt was still in the Assembly, and in reaffirming his responsibility for the first free banking Act, he declared with a lofty disdain of the facts, that it was the "best system adopted in any country from the beginning of the world to the present time." "The sole cause of its being inoperative in Canada," he contended, "was that it had not been honestly carried out."[2] Mr. Cayley's bill did not come up for the third reading, for what reason the debates give no evidence.

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[1] *Ibid*, 1856, p. 237.

[2] *Ibid*, 1857, part ii., pp. 94-95.

[3] *Ibid*, 1860, part ii., p. 88.

[4] *Ibid*, 1861, part ii., p. 94.

[5] *Ibid*, 1862, part ii., p. 96.

The Minister of Finance, the Honorable A. T. Galt, proposed the repeal of the law in 1860, but the other proposals to which this was coupled were so radical and far-reaching that action upon the whole group was indefinitely postponed.[3] Six years after this, and sixteen years after its first passing, the "Act to establish Freedom of Banking" was finally repealed by the Provincial Note Act of 1866. (29-30 Vic., cap. 10, § 16.)

Six banks in all had taken advantage of the Act. To one of these, the Bank of British North America, the privileges acquired under the Act were doubtless of considerable value. The others did not thrive. Two of the companies working solely under the free banking laws wearily struggled for three years (1856 to 1858) against the competition and prestige of the chartered banks, and then began to retire their issues and wind up their business. The three banks earliest started under this Act soon applied for charters and secured them. (18 Vic., cap. 202-204.)

Of these, the Zimmerman Bank had the shortest life. Founded in 1854 by a person of means, it was, to an unusual degree, the creature of one man. It seems to have been well and honorably managed by the capitalist whose name it bore, but after his death in December, 1857, the notes and debts of the bank were redeemed by his executors and the stock and plates transferred to a Chicago firm of the name of Hubbard & Co. In

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[1] Toronto *Globe*, 7th March, 1857.

[2] *Ibid.*

[3] Thompson's Mirror of Parliament, 1860, pp. 22, *et seq.*

1858 the charter of 1855 was amended by changing the name of the institution to the "Bank of Clifton," and extending the time for the subscription and payment in full of its capital stock. (22 Vic., cap. 129.) The extraordinary privilege "that the bank notes and bills in circlation shall be of whatsoever value the Directors shall think fit to issue the same, but none shall be under the value of 5 shillings ($1)," was a feature of the amended charter. In 1863 its charter was repealed for reasons which will presently appear. (27 Vic., cap. 45.)

The Bank of the Niagara District, with its head office in St. Catharines, Canada West, found difficulty from the first in securing the capital required by its charter. The Act of 1855 required subscription and payment in full of the million dollars in five years. In 1857 an indulgent Assembly extended the term to 1861; in 1861 to 1866; in 1863 the capital stock requirement was reduced to $400,000, and the time for paying it up extended to 1865. The bank had a fairly successful career until it suffered large losses through the failures of Jay Cooke & Co., and others, in 1873. Hardly able longer to carry on an independent business, it was amalgamated early in 1875 with the Imperial Bank of Canada. The shares of the Niagara District Bank were exchanged for those of the Imperial, according to the relative value of the two stocks, and thereafter the former bank disappeared as a separate institution.

Out of the five originally "free banks," but one, the Molsons' Bank, of Montreal, has survived, and is now an institution of standing and importance.

§ 28.—CONTINUATION AND AMENDMENT OF BANK CHARTERS

As early as November, 1854, there came before the Legislature the question of permitting the chartered banks to increase their capital stocks. In this connection Mr. Francis Hincks admitted that the public had not shown any great disposition to take advantage of the free banking law. He said further:

> "First. He thought that the public wanted a large increase of banking capital.
>
> Second. There was not money in Canada to furnish that capital.
>
> Third. The country must get this capital from foreigners, and the

people of Canada would have to consult foreigners as to the manner in which it should be done.

Fourth. The county knew that no English capitalist was disposed to furnish money to Canada through the agency of private banks. But English capitalists would recognize the large chartered banks, because these banks had been known for many years as a safe means of investing capital. * * * Capitalists had confidence in them, but they would not have confidence in private banks established under a new banking system. If the people wanted to increase their banking capital they must do so through the existing banks."

The question as thus presented was in essence the alternative whether or no to retain the old system and give up the new. Banks with a "secured" circulation cannot long survive, in a time of specie payments, the competition of banks issuing notes upon their general credit. They have not the earning power to maintain the contest on equal terms. This principle was illustrated in Massachusetts, it was acknowledged in New York,[1] it was recognized in the United States, it has been proved in Canada. After 1854, the fate of the free banks was inevitable; the Assembly decided not to give up the chartered system which had served so well.

Accordingly bills were passed permitting additions to capital stock amounting to £2,010,000 for the six banks who applied (18 Vic., cap. 38 to 42, inclusive). A few amendments were added to the charters. The Bank of Montreal, *e.g.*, taking warning from a case decided shortly before,[2] secured the right to hold mortgages on ships, steamships and other vessels by way of additional security. The shares necessary to qualify as a director were raised to twenty, and discounts bearing names of directors were limited to a tenth of the total discounts. Provisions permitting the transfer of shares and the payment of dividends in Great Britain were included in most of the Acts. Ostensibly as a security to the public, really as a brace to the debenture market, all the banks were required, in case they availed themselves of the permission to increase their capitals, to invest one tenth of their paid-up capitals in debentures of the Province or of the Consolidated Municipal Loan Fund. The charters were continued to the 1st January, 1870, and the end of the then next session of Parliament.

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[1] *Cf.* MR. FILLMORE'S remark: "It cannot be expected that banking under this (the free) system will be as profitable as under the Safety Fund system." Report of the Comptroller at N.Y., 1849, p. 57. It will be remembered that the latter system, the banks of which had a privilege of issue similar to that of the Canadian chartered banks, disappeared from the State, not through the action of competition, but because the State ceased to grant charters and these expiring after 1849 were not renewed. The banks were forced to re organize under the general banking law or go into liquidation. The principle referred to in the text received most striking recognition by the United States in the 10 per cent. tax upon State bank notes imposed in 1865, 13 U. S. Statutes at Large, p. 469.

[2] McDonald vs. the Bank of U.C., U.C.Q.B., Hilary Term, 13 Vic., p. 264.

Again in 1855, when the tide of sudden and remarkable prosperity which followed the Reciprocity Treaty of 1854 was beginning, the Legislature decided to increase the number of chartered banks. The Molsons', Zimmerman, Niagara District, and Eastern Townships Banks were incorporated with authorized capitals of £250,000 each, £50,000 to be paid in each case before the bank should begin business, and the whole in five years. The St. Francis Bank was chartered with a capital stock of £100,000, and the Bank of Toronto with £500,000. In these charters it was provided that, instead of voting by scale, the shareholders should have as many votes as shares. But in the Acts to amend and consolidate the charters of the Bank of Montreal, Bank of Upper Canada, and Commercial Bank, passed in 1856 at the request of these corporations, the old voting scale was retained. (19 Vic., cap. 76, 120, 121.) The Quebec Bank obtained a similar Act in 1858 (22 Vic., cap. 127); the City Bank in 1863, (27 Vic., cap. 41). The directors were in each case limited to one-twentieth of the total discounts. By another Act of 1856 chartered banks were permitted to charge not more than one-half of one per cent. on ninety day paper, in addition to the legal rate of discount, for the expenses of agency and collection, when the security was payable at a place different from that where it was discounted. (19 Vic., cap. 48.)

Penalties upon usury had been abolished in 1853 by a law according to which contracts and securities were to be void with respect only to the excess of interest above six per cent. (16 Vic., cap. 80.) But the Act did not apply to the banks or to the corporations, such as loan companies or building societies, authorized to borrow or lend at a higher rate. Until 1858, banks taking or accepting or receiving the rates higher than six per cent. were liable to forfeit treble the value of the money lent or bargained for, half to the Crown and half to the person suing for the penalty. The Act 22 Vic., cap. 85, however, permitted, in general, that any rate of interest agreed upon might be exacted, but prohibited the banks from taking or stipulating for a higher rate than seven per cent. per annum. When the paper discounted was payable at another of the bank's own offices, the charges for agency and collection on paper payable at another place than that where it was discounted, were reduced for short time discounts to correspond with the rate of one-half of one per cent. for securities payable in 90 days.

In 1859 another general Act applying to the chartered banks was passed for the avowed purpose of granting additional facilities in commercial transactions. The measure had been strongly urged by the banks.[1] It was the first step of the legislation, afterwards much developed, enabling the chartered banks, in discounting bills of exchange or notes, to take as collateral security bills of lading, specifications of timber, or receipts given by carriers, whether on land or water, keepers of coves, wharfingers and warehousemen. The banks were empowered to acquire title to the grains, goods, wares or merchandise described in the face of the instrument, by indorsement of the owner or person entitled to receive them, subject, of course, to the right of the indorser, upon his paying the debt, to have the title re-transferred.

In case the debt were not paid when due, they were authorized to sell the commodities, deduct their claim, costs and interest, and return the remaining proceeds, if any, to the indorsor. But no such transfer of title was permitted unless the bill, or note, or debt was negotiated at the same time with the indorsement of the collateral security. The bank might not hold the goods for more than six calendar months. In case they were to be sold, it was obliged to give ten days notice to the indorser. The important restrictions were the last two but one. These, it was believed, were sufficient to keep the banks from engaging in trade or risking their capital by speculative investments in graded merchandise.

Seven more bank charters were added to the list in 1856 and 1857. The authorized stocks amounted to £2,966,666 currency, thus making a total of twelve banks incorporated between 1855 and 1857 inclusive, and of £6,326,666 currency added to the authorized banking capital of the province. This was more than double the total paid-up capital of the banks in 1851, and nearly equal to their actual capital in 1861. These figures indicate the manner in which the expansion and speculative movements were affecting people and Legislature. Events soon proved that so many banks were not needed. The Union Bank and St. Francis Bank never began business, and three other charters granted in this period were repealed in 1863, the banks having failed to fulfil the duties required by law. For the banks which managed to survive, the Legislature was obliged to relax its policy of requiring from each bank a capital stock of £250,000, and greatly to extend the time for paying up the reduced stocks.

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[1] Journal, Can., 1859, Appendix No. 67, Evidence of the Bank of U.C., Bank of Montreal, Bank of B.N. America and Commercial Bank.

§ 29.—1857 – 1863

One explanation of the large increase in banks has already been given in the mention of the great agricultural and commercial changes which were plainly apparent in 1855. The Reciprocity Treaty, in furnishing the Canadians with a large market, easily reached, for the products of their fisheries, farms and forests, was undoubtedly a powerful factor in the new prosperity. But long before the success of Lord Elgin's diplomacy, foreign capital was beginning to come into the colony, agriculture was reviving in the West, population was increasing rapidly, vast public works were started, large additions to the railway system were commenced.[1] Government assistance was granted to the trunk lines. The Grand Trunk Railway, the Great Western Railway and some eastern roads together effected an increase of 1,563 miles of road between 1852 and 1858. The railway mileage of Canada was increased over 1,500 per cent. The better prices for produce obtained after the Treaty turned the attention of investors to land speculation. Excessive prices were given for wild lands. Schemes for new villages and towns were everywhere afloat. Harvests were abundant in 1853, 1854, 1855; the price of breadstuffs high; and yet, in 1857, the farmers were more deeply in debt than in 1853. They had sold for cash, and bought largely on credit. Considerable additions were made to improved farming lands, but many tied up their capital by speculating in unproductive real estate. Trade was stimulated to an unprecedented degree, and bank accommodation stretched to the utmost limit. Excessive and extravagant importations occurred in 1856 and 1857. The Municipal Loan Fund, a scheme whereby the Province guaranteed the borrowings of the towns and counties, served to swell the inflation. The pressure for money was very strong in 1856; there was a prospect that both public works and railway expenditures would soon be ceased.

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[1] *Cf. Bankers' Magazine*, Vol. 2, p. 441; Vol. 12, p. 368; Vol. 13, p. 538.

Then came the bad crop of 1857. The commercial crisis in Great Britain, Europe and the United States was at its height. The suspension of specie payments in New York on the 14th October compelled the Canadian banks to guard against an extraordinary drain of gold. They ceased discounting. Some five or six weeks elapsed before they could safely grant the advances necessary to bring the crops of the year to market.[1] This delay of produce operations alone caused great loss. As a result of the crisis elsewhere the Canadians next suffered a heavy falling off in the demand for their grain, ashes, timber, etc. Then followed numerous commercial failures, a fall in all values, the collapse of the real estate boom, a contraction of credits, a second bad harvest in 1858, and two years of black depression.[2]

But in 1859, the Provincial Parliament was again addressed by petitioners for new bank charters. To secure evidence by which to guide the policy of the House with respect to banking, a select committee on banking and currency was struck on the motion of the Minister of Finance, Mr. A. T. Galt. In the evidence presented by this committee, and chiefly obtained from the leading bankers, there was much pointed criticism of the existing banking system. It was objected, *e.g.*, that the law had allowed the creation of banking capital beyond the needs of the country. The privilege of circulation was conferred without the necessary safeguard. A dishonest bank could begin business merely by investing £10,000 in debentures; there were no means to assure the full payment of the required capital, and this minimum was often too small. There was no obligation to publish the names of stockholders. The plan of limiting circulation to the paid-in capital, plus specie and debentures, was delusive, as either of the latter could be gotten only by purchase with capital or deposits. If capital were used, then so much of the capital was displaced. The law thus treated as distinct from capital what was really a part of it. If deposits were used, then the bank was allowed to base an additional liability upon what it was already bound to pay.

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[1] Thompson's Mirror of Parliament, 1860, 27th March.

[2] Journal, Can., 1859, Appendix No. 67, Report and Proceedings of the Committee on Banking and Currency, is the leading authority for the facts detailed in the last two paragraphs.

There was insufficient motive provided for an active interest on the part of the directors. It was urged that a larger holding of paid-up stock should be exacted of them.

The effects of the crisis had been aggravated somewhat by the restriction on the rate of discount chargeable by the banks. The banks could give no warning of approaching difficulty by raising the rate. It was necessary peremptorily to refuse discounts to some applicants, and to confine their accommodations, as far as possible, to wealthy and independent customers, and those with "valuable accounts," *i.e.*, customers from whom incidental advantages of exchange, agency charges, large deposits, undoubted security, and the like might be derived. The result was that inferior customers, and those who, very possibly, most needed the assistance to tide them over, were the least likely to get it.

But it also appeared that in every district of any importance the banks had planted agencies and brought to the door of such communities liberal advantages, with the power and security of the same large monied corporations which served the cities. The branches had not indeed quieted the demand for small banks. But small banks, so the experience of the United States seemed to teach, were unsafe. Besides, it was perceived that the cry for small banks was one seldom voiced by the lending part of the community. As a Province, Canada very properly refused the eternal task of quieting borrowers' claims. The Minister himself acknowledged that as a rule the banks had been well and wisely managed.[1] During the panic in the United States, Canadian notes were received there with the same readiness as specie in payment of notes which the local banks were called on to redeem.[1] And yet the Minister was not satisfied. He had used the committee to conceal the purpose which he revealed in 1860.

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[1] Thompson's Mirror of Parliament, 1860, p. 21.

This was the establishment of a Bank of Issue, or Treasury Department, for which he introduced resolutions on the 27th March. He wished, he said, "to put the currency on a perfectly sure and safe footing, by separating it from the banking interest, and by removing it from the possible suspicion of being affected by political exigencies." But his solicitude was insincere, his monetary theories false. His ultimate object was assistance to the Provincial finances; his proposed means, the emission of legal tender, though convertible, Government notes as the sole currency. The resolutions found slight approval as the order for their consideration in committee was discharged the 18th May.[2] They are interesting now only as the forerunner of the Provincial Note Act of 1866, the provisions of which were largely due to the monetary fallacies and financial exigencies of the same Minister.

The policy of the Legislature was steadily to extend the system of chartered banks on the old lines. In 1858 the Bank of Canada (afterwards the Canadian Bank of Commerce) was incorporated. (22 Vic., cap. 131.) In 1859, three charters were granted, among them that of *La Banque Nationale*, situate at Quebec. (22 Vic., cap. 102-104, 2nd sess.) In 1861, the Merchants' Bank and La Banque Jacques Cartier were created in answer to the petitions of Montreal capitalists. (24 Vic., cap. 89 and 90.) The Royal Canadian Bank was chartered in 1864, the Mechanics' Bank, the Union Bank of Lower Canada and one other concern in 1865, and two more still in 1866. Fourteen charters and amending acts, authorizing capital for $19,460,000, were the record for the nine years, 1858 to 1866. Payments amounting to $1,475,000 were required on the twelve charters before the banks could begin business.[3] Only the seven banks named in the text took advantage of their charters and began a corporate life of some duration. The charters of the Banks of Clifton and of Western Canada, like those of the International and Colonial Banks, were repealed in 1863. The International and Colonial Banks had failed in 1859, without, however, inflicting much loss.[1] All had suspended their payments and discontinued operations, and the Legislature then deemed it advisable to prevent their resumption on the terms and conditions embodied in their charters. (27 Vic., cap. 45.)

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[1] Journal, Can., 1859, Appendix, No. 67.

[2] Journal of the Legislative Assembly of the Province of Canada, 1860, pp. 114, 452.

[3] After 1857 the denominations of the decimal currency are used almost exclusively in Canadian legislation.

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[1] Thus the last return made to the Government by the Zimmerman Bank (changed to the Bank of Clifton), was for October, 1857, of the Colonial and International Banks (situate at Toronto) for October, 1859:

Average of the Assets and Liabilities of the

LIABILITIES	Zimmerman Bank, for Oct., 1857	Colonial Bank, for Sept., 1859	International Bank, for Sept., 1859	Bank of Western Canada, for June, 1861
Capital Stock paid-in..................	$453,500	$112,000	$132,500	$101,750
Notes in circulation..................	33,991	75,300	119,021	5,210
Balances due to other banks.........	27,711	3,061	5,097	....
Cash deposited not bearing interest	10,809	21,517	9,968	....
Cash deposited bearing interest...	99,200	....	....	....
	$171,712	$99,878	$134,087	$106,960
ASSETS				
Coin and bullion	$2,723	$18,769	$20,030	$1,115
Landed property	1,463	262	2,423	3,871
Government securities	35,000	13,200	15,000	12,000
Notes and bills of other banks......	936	5,928	9,990	3,786
Balance due from other banks......	573	54,713	19,011	25,000
Bills and notes discounted............	596,559	119,245	201,875	61,186
	$636,254	$212,118	$268,331	$106,960

Vide Canada Gazette, vol. xvi., p. 2,678.
" " " vol. xviii., p. 2.497.
" " " vol. xx., p. 1,624.

The Bank of Clifton, as such, never made any returns to the Government. Hubbard of Chicago was succeeded by one Callaway, formerly of Toronto, as President. Some circulation for its notes was obtained in the Western States by advertising in a bank note Reporter that the "notes of the Bank of Clifton, incorporated by the Parliament of Canada," would be redeemed at a broker's office in Chicago. Enough notes were paid to get credence for the statement and then the supply of funds was stopped. Over $5,000 of the paper thus repudiated was sent to Clifton, but there was no money to meet it. The Bank of Western Canada was controlled by one Paddock, a New York tavern keeper, who, by paying for his stock, secured a respectable old man at Clifton to act the stool pigeon as President of the bank, but he had no check on the issue of notes. Efforts were made to float them in Illinois, Wisconsin and Kansas, with some success, but the notes were never redeemed. Reed, of Lockport, N.Y., a man of bad repute, owned nearly the whole stock of the International Bank in Toronto when it failed, and was connected also with the Bank of Clifton.

A committee of the Assembly reported in 1862 that the position of the two banks first named was such that it was discreditable to the Legislature to allow their charters to remain in existence any longer. Action was postponed, however, till a committee of 1863 reported that "considerations of public policy imperatively demand the immediate repeal of the charters of these four banks." *Vide* Journal, Canada, 1863, p. 109; *ibid*, 1862, Appendix No. 4.

None of the charters granted between 1858 and 1866 permitted the beginning of business with less than $400,000 capital subscribed and $100,000 paid up. As evidence of its *bonâ fide* payment, it was usually required that before the new bank should issue notes, its paid-in capital should be deposited, as specie, in some existing chartered bank of the province. One year from the passing of the Act was the ordinary time in which a charter became forfeited by non-user. In some cases the limit of one-fifth the paid-in capital stock was imposed upon the circulation of notes under five dollars; in others, of those under four dollars. Differences are also to be noted in the application of a scale, or the rule of one for each share, to the voting of the shareholders. In requirements of larger stock investments by the directors, proof that capital is actually paid in, and the like, the charters embody important corrections suggested to the Committee of 1859. It hardly need be said that they contained all the safeguards and provisions previously adopted, in compliance either with Imperial recommendations or the teachings of colonial experience.

It was impossible, even for the seven banks finally started, to secure the payment of their capitals in the time limited by their charters. The Parliament accordingly consented to relax these requirements in a manner very like that in which we have seen it indulge the Niagara District Bank. The laws of 1858 had contained no less than five extensions of the times prescribed for banks previously chartered, to secure full subscription and payment of their stocks. And similarly, between 1862 and 1865, the Merchants' Bank, the Canadian Bank of Commerce, the Eastern Townships Bank and the Quebec Bank were all obliged to secure extensions of the periods in which the payment of their original or additional capitals was required by the Acts authorizing them.

§ 30—FAILURE OF THE BANK OF UPPER CANADA

The period between 1852 and 1857 was a time not only of great economic expansion but also of great economic change. The development had been over discounted by sanguine

Canadians, and hence values collapsed when the crisis arrived. Of the long depression that followed a leading cause must be sought in the slowness and difficulty of the adjustment to new conditions brought by the introduction of railways, extension of public works, roads and bridges, shifting of the routes of commerce and alterations in the chief industrial pursuits of important districts. The statement may be made with especial force, of Upper Canada, or Canada West, where the real estate excitement had been higher and the increase of railways greater. Many of the towns placed for water communication were left on one side by the railways or deprived of their importance. Cobourg, Sandwich, Dundas, Burlington, Kingston, Niagara, Brockville and others, once the centres of flourishing trade, either failed to recover from the depression or lost heavily to more favored situations. Lumber getting and real estate improvement were pushed backward and northward to make room for more settled industry.

In the early days of the province the Bank of Upper Canada had been the provincial bank. It had given assistance, comparatively enormous, to the development and commerce of the country. Land was then the single valuable security possessed by its customers in any quantity. It was therefore necessarily more or less a land bank in a disguised form. Its managers and clerks were often British immigrants who lacked the intimate knowledge of Canadians and Canadian trade that life-long familiarity would have given. In many instances, too, they failed to exhibit acquaintance with the simplest of banking principles. Discounts were freely extended to lawyers and legislators, the gentry and professions. "Accommodation" paper was common. Loans were made to civil servants and to politicians. No one will deny that the bank was guilty of much bad practice, that it paid high rates of dividend when it could ill afford, that it failed to write off accrued losses, that it impaired its capital by extravagant bonuses, that its internal organization was defective, and that its management was often blind, reckless and ignorant.

Still the bank survived. It was invested with the dignity, it enjoyed the prestige, of a Government institution. Its credit was always high, its "green notes" held in great esteem. Quantities of notes issued twenty years before, and as bright as they came from the press, were found in due time stored away, like gold itself, in the chests of Canadian farmers. For them the bank was as the Bank of England. A position in its service was a post of honor and consequence. Its name was the very synonym of strength. The confidence of the public was reinforced by their gratitude. The bank had been the instrument of men of broad ideas and large purpose, ambitious, enterprising, hopeful pioneers. The good they did lived after them, but at the time of the bank's demise it had not reached the enjoyable stage.

Up to 1857 the Bank of Upper Canada had grown steadily. Dividends of 6, 7, 7, 8, 8, and 7 per cent. were paid in 1852-1857. The capital was increased in 1855, and a 12½ per cent. bonus paid to the old shareholders. In 1858 the capital paid in amounted to $3,118,000. The dividend that year was 8 per cent, and the rest was reduced but $40,000, to meet the losses of 1857. For a bank which had worked in the midst of the land speculation, had undoubtedly joined in it, and lost heavily when property taken as additional security fell to the lower values, this was utterly inadequate.[1] Their mistake was recognized by the directors in 1861. Thos. G. Ridout, cashier since 1822, retired, and Mr. Robert Cassells, a banker of high reputation and eminent ability, was employed at the salary of $10,000 per annum, in the hope that he would succeed in saving the Bank. In compliance with his suggestions, permission was obtained of the Legislature to reduce the paid-up stock to something over $1,900,000, the par value of the paid-up shares from $50 to $30. (25 Vic., cap. 63.) For twelve years or more the bank had kept the Government's account. During this time it was usually a considerable debtor to the Treasury. But the debt to the Government was fixed by an Order-in-Council of the 12th August, 1863, at $1,150,000, and transferred to a special account.[1] Some slight general deposits were allowed to remain, but most of the Treasury balances were, by November, transferred to the Bank of Montreal, which became henceforth the Government's banker.

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[1] Twenty years and more after the event Senator Alexander revealed an incident in further explanation of the bank's losses. In 1858 or 1859 the Grand Trunk Railway Company were indebted to contractors to the extent of a million dollars. To enable the Company to pay these claims the bank was induced to make advances of that amount on two bills of exchange for £100,000 each, drawn upon the Railway Company's London bankers, the Barings and Glyns. These houses, however, had closed down upon the Company, and the bills were dishonored, the result being that a good part of the million was wholly lost.—Debates of the Senate of Canada, 1885, p. 35.

The deep rooted belief in the bank entertained by the public was still strong, but after 1860 the monthly returns give unmistakable signs of retrogression on the part of the bank itself. The general business had fallen off heavily as the old towns in which the bank was established lost their prosperity to the centres growing up in the new industrial districts and along the altered routes of trade. Another cause of the reductions is to be found in the efforts of the new management to get the business down to a solid basis. Its circulation, which averaged over $2,100,000 between 1857 and 1860, fell in February, 1862, to $1,696,000, and in August, 1865, to $988,000. Non-interest bearing deposits dropped from $1,920,000 in February, 1862, to $640,000 in August, 1865; deposits at interest from $2,644,000 to $1,959,000; discounts from $6,186,000 to $3,231,000; but the landed or other property of the bank rose from $503,000 to $1,473,000. In this last item we find the prime cause of the trouble, the collapse of 1857-58, in the real estate of Canada West.[2] Neither in 1864 nor in 1865 were any dividends paid. The task of saving the bank was become clearly impossible; some of the assets were worthless, some locked up in land. By an Act approved the 15th August, 1866, permission was granted further to reduce the capital to $1,000,000, in fully paid-up shares of $20 each. Before this could be acted upon, the bank was further weakened by the withdrawal of deposits, and its stock fell to $3 per share. The loan of $100,000 obtained from the Government on special securities in the first fortnight of September was of slight avail.[3] On the 18th the Bank of Upper Canada stopped payment.

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[1] Sessional Papers, Canada, 1867-68, No. 27.

[2] See Note 1, page 130.

[3] Sessional Papers, Canada, 1867-68, No. 27.

On the 12th November the bank, by the consent of the

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[1] The course of the bank's business can best be judged by the following table for 1857 to 1866, compiled from the *Canada Gazette*:

AVERAGE MONTHLY STATEMENT of the Bank of Upper Canada for the months of August and February, from 1857 to 1866 inclusive, from the *Canada Gazette*.

	LIABILITIES (000 omitted)						ASSETS (000 omitted)							
	Capital Stock paid in	Notes in circulation not bearing interest	Balances due to other banks	Cash deposited not bearing interest	Cash deposited bearing interest	Total liabilities	Coin and bullion	Landed or other property of the bank	Government Securities	Promissory notes or bills of other banks	Balances due from other banks	Notes and bills discounted	Other debts due to the bank not included under foregoing heads	Total assets
	$	$	$	$	$	$	$	$	$	$	$	$		$
1857—Aug	3,094,390	2,765	894	1,612	262	5,530	442	147	273	223	629	7,378		9,093
1858—Feb	3,110,250	2,132	1,219	1,727	141	5,220	475	182	341	138	703	7,067		8,779
Aug	3,118,255	2,271	1,460	1,932	136	5,800	411	204	946	156	654	6,925		9,299
1859—Feb	3,124,980	2,368	477	2,085	1,259	6,192	686	223	508	164	667	7,466		9,718
Aug	3,127,215	2,119	403	2,148	2,713	7,383	517	240	937	160	671	8,540		11,069
1860—Feb	3,130,485	2,306	1,176	2,075	1,585	7,143	518	254	288	227	688	8,967		10,945
Aug	3,136,240	2,277	65	1,916	2,319	6,578	722	379	319	206	635	7,983		10.247
1861 Feb	3,138,320	1,965	399	2,209	2,546	7,120	477	385	314	199	296	6,479	2,562	10,715
Aug	3,170,270	1,883	139	2,151	3,191	7,365	463	428	316	286	594	5,245	2,214	9,549
1862 - Feb	3,169,600	1 696	193	1,920	2,644	6,454	687	503	317	221	407	6,186	920	9,244
Aug	1,901,460	1,657	116	2,230	2,620	6,624	636	714	203	178	467	6,298	880	9,378
1863—Feb	1.911,543	1,592	701	1,796	2,503	6,594	563	809	203	193	308	6,462	741	9,282
Aug	1,922,268	1 611	508	2,242	2,516	6,878	755	839	207	174	292	6,409	776	9,455
1864—Feb	1,928.850	1.537	480	2,066	1,639	5,723	509	932	203	199	452	4,921	1,094	8,223
Aug	1,932 102	1,183	746	804	2,757	5,491	446	1,281	203	100	183	4,322	1,098	7,637
1865 Feb	1,936,401	1,049	793	866	2,453	5,161	545	1,464	203	82	157	3,752	1,077	7,283
Aug	1,939,287	988	783	640	1,959	4,372	412	1,473	197	71	133	3,231	1,056	6,576
1866—Feb	1,939,287	954	142	842	1,880	3,820	345	1,515	196	69	32	2,717	940	5,816
July	..	888	369	677	1 800	3,735	367	1.632	196	84	22	2,531	894	5,728
Aug	1,939,845	813	416	571	1,754	3,555	244	1,673	196	61	26	2.488	874	5,565
Sept	1,939,845	754	476	511	1,659	3,402	104	1,676	196	12	15	2,481	875	5,362

shareholders in general meeting, was assigned to trustees. Previously to the 9th of the same month reductions from the average liabilities of August had been effected as follows :

(000.00 omitted)	Average for Aug., 1866	Actual condition, 9th Nov., 1866	Reduction
Notes in circulation	$813	$722	$91
Balances due to other banks	416	299	117
Deposits not bearing interest..............	571	395	781
Deposits bearing interest	1,754	Due to the Government 1,149	
Total..............	$3,555	$2,566	$989

Which was evidently provided for as follows :

Coin and Bullion, or cash in banks	$244	$42	$202
Landed or other property	1,673	1,673	....
Govt. securities	196	17	179
Notes and bills of other banks	61	....	61
Balances due from other banks	26	....	26
Notes and bills discounted ..$2,488 Other debts due to the bank.. 874	3,362	Bills and judgments......$2,225 Railway and other bonds 35 Mortgages .. 62 $2,322	1,040
	$5,565	$4,056	$1,509

The statement for the 9th November may be taken very nearly to represent the condition of the bank at the time of its failure. Liquidation of the estate proceeded slowly. In December, 1867, the trustees were incorporated, and provision made for the appointment by the Government of two trustees, to represent the interests of the creditors, and of one by the shareholders to act in their behalf. (31 Vic., cap. 17.) The three new trustees took hold of the estate on the 16th March, 1868. In December, they reported that no steps had been taken to enforce the double liability, and that the apparent surplus of assets over liabilities had been reduced from $1,375,797 in March to $477,161 on the 31st December, through the following operations :

Written off as irrecoverable debts	$ 623,076 51
Losses on lands assigned to Glyn & Co. and sold by their trustees	111,918 87
Net loss on lands sold by the Bank of Upper Canada Trustees	93,411 83
Sundry items	70,228 34
	$ 898,635 55

This loss had been incurred in realizing about $307,998 upon $1,266,633 of the assets as they had been valued in March. It was expected that $1,019,000 of bills and judgments would produce some $513,000; that real estate valued at $979,000 would net say $588,000. A deficiency of nearly $500,000 would probably occur,[1] and the trustees believed that the trust could not be profitably closed up before five years. Meanwhile it was costing the estate $14,280 a year, besides the interest on certain outstanding debts.

"No creditor of the bank has been paid the amount of his claim, either in full or in part, excepting some trifling sums that could not otherwise be disposed of," the trustees reported. According to the deed of assignment, they were compelled to receive claims against the bank at their full value in payment of debts due to the bank; but as an inducement to facilitate the negotiation of real estate, after the 16th March, 1868, claims were received at from 66 to 75 per cent. of their par value, in payment of lands taken in settlement by the bank's creditors.[2] The trustees continued their operations until the whole estate and powers vested in them were transferred to the Crown by an Act of

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[1] Sessional Papers, 1869, No. 6. Correspondence, Bank of Upper Canada.

[2] *Ibid*, p. 6.

1870, approved the 12th May (33 Vic., cap. 140). The following table will indicate the progress of the liquidation down to 1882:

LIQUIDATION OF THE BANK OF UPPER CANADA (cents omitted.)

	1 (*b*) 9th November 1866	2 (*b*) 16th March 1868	3 (*b*) 31st December 1868	4 Increase and Decrease between 1 and 3	5 (*c*) 1st August 1870	6 (*c*) 16th May 1882
ASSETS:	$	$	$	$	$	$
1. Cash on hand and in banks	41,943	7,302	13,622	– 28,321	....	....
2. Government Debentures ..	17,591	22,162[a]	....	– 17,591	....	....
3. Gov. re'cpts from liquidation	....	....	....	....	4,617	348,746
4. Railway and other bonds ..	35,282	....	12,811	– 22,470	10,640	10,640
5. Bills and judgments, old acct.	2,225,469	1,829,339	1,019,855	– 1,205,614	649,534	15,000
6. Bills and judgments, new acct	....	....	....	....	....	....
7. Real estate	1,673 623	1,367,576	979,778	– 693,845	311,503	....
8. Real trust account	....	....	....	....	184,612	....
9. Mortgages, old account ...	62,580	135,402	54,707	– 7,873	64,419	40,000
10. Mortgages new account ..	....	....	96,896	+ 96,896	72,454	
11. Bills and securities, new acct.	....	....	17,400	+ 17,400	19,621	6,000
12. Suspense account	....	....	....	....	1,219	....
13. Irrecoverable debts........	....	....	....	....	271,631	....
14. Total	4,056,491	3,361,783	2,195,071	– 1,861,420 net	1,317,400[d]	420,387
LIABILITIES.						
15. Notes in circulation	722 086	262,219	116,687	– 605,399	43,301	....
16. Due to Depositors	395,740	382,668	112,751	– 282,988	....	....
17. Due on new acct certificates.	....	....	239,145	+ 239,145	55,861	5,000[e]
18. Due to Glyn & Co	299,300	207,268	126,685	– 172,614	74,416	....
19. Due to the Government....	1,149,430	1,133,430	1,122,639	– 26,791	1,122,639	1,122,639
20. Due on advance account ..	....	....	....	....	150,000	252,376
21. Sundry items	....	....	....	....	18,823	....
	2,566,556	1,985,986	1 717,909	– 848,647 net	1,465,040	1 380,015

(*a*) Includes road stock.
(*b*) Compiled from Sessional Papers, Canada, 1869, No. 6, pp. 2 and 9.
(*c*) *Ibid*, 1882, No. 108a.
(*d*) Irrecoverable debts and suspense account not included in this footing.
(*e*) Items 15, 17 and 21, estimated demands.

It appears from this that the liabilities of the bank to the Canadian public (deposits and note circulation) stood in November, 1866, at $1,117,826, and were reduced by the end of 1868 to $468,583 (including certificates of deposit issued by trustees): by 1870 to $99,161, and by 1882 to $5,000 (estimated). The Government continued to redeem its liabilities at 75 cents on the dollar after the property was vested in the Crown. Supposing the redemptions previous to December, 1868, to have been at the average rate of 70 per cent., regarding only the direct capital loss, and making no allowance for the extra discounts to which needy note holders or depositors were obliged to submit, I calculate that the Canadian creditors of the Bank of Upper Canada lost at least $310,000 by the failure. The stockholders lost the whole of a capital which was once $3,170,000; the Government, and through it the taxpayers, lost all but $150,000 of deposits amounting to over $1,150,000.[1] For proprietors and creditors combined the results of the failure was the disappearance of a principal which cannot be reckoned at less than five millions of dollars, a sum equal to 17 per cent. of the entire banking capital of the Province. Such a loss to the Canada of those days, and to Canada West, where the larger amounts were involved, was not merely severe; it was enormous.

One of the questions suggested by the facts I have recounted is, "Why was not the double liability of the shareholders enforced?" But the true answer will not be found in the documents. The trustees reported on the three thousand shareholders in December, 1868, thus:—[2]

	Stock
Executives, guardians and minors	$129,360
Trustees	337,500
Municipalities	12,810
Females and persons living abroad	585,165
Residents in Canada, not known	172,220
" " " believed to be bad	139,900
" " " including females, believed to be good	562,890
	$1,939,845

It is true that loss had fallen upon many of those least able to bear it, widows, orphans, women and aged investors of small means, who had put their little all into the stock of what was once the Government Bank, and suddenly found themselves stripped both of principal and income. It is true that the Government, as the largest creditor of the bank, had secured the "opinion of the best legal authority" that any contribution from the shareholders under the double liability clause could not be enforced by law until the entire estates had been realized. For that process, it was thought, in 1868, that five more years would be needed. It is also true that the Government carefully abstained from an effort to secure judicial decision upon the question. And there is no doubt that the Government of the years in which the Bank of Upper Canada was still solvent, and the knowledge of its losses had not reached the public, having the bank at their mercy in consequence of the heavy indebtedness to the Treasury, abused their position, and compelled the bank to make many advances for political reasons which resulted in very heavy losses.[1] It is not denied, of course, that there must have been grave mismanagement to bring the bank into a condition in which it had to submit to such demands, or that the chief cause of the failure was the collapse in Ontario in 1858. There is no doubt that all four factors, the contributory responsibility for the failure which the Government could scarce avoid, certain political motives, never yet revealed, of the party in power, the distressed condition of many shareholders, and the opinion of the Government's legal advisers, combined to prevent the effort to enforce the double liability.

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[1] Sessional Papers, Canada, 1882, No. 108 a.

[2] Sessional Papers, 1869, No. 6, p. 5.

Instead tremendous efforts were put forth to prevent a full inquiry, attempts were made to silence the press, and they were not without success.[2] The liquidation under trustees was costly, absorbing, in all, some $90,000 a year. The Government, although the largest creditor, has received no dividend on its claim, the assets were insufficient to meet the liabilities of the bank. But it was thought that the Government, having no taxes to pay, and being able to wait, would succeed in securing more from the real estate than could be had by private manipulation. Accordingly the Act of 1870, already mentioned, was passed. In 1871 not more than $250,000 were placed at the disposal of the Governor-in-Council to pay off claims upon the bank, provided its assets contained ample security for reimbursement. (34 Vic., cap. 8.) Eleven years later $5,000 more were similarly voted. The course of the subsequent liquidation is familiar. It remains now merely to remark some of the valuable effects of the failure. Blind popular belief in the safety of banks as banks, was corrected, and a popular criticism was created and thereafter applied to the management and accounts of the banks which served the province. To managers and directors it gave a wholesome warning, not only to look to the inner organization of their banks, but also to guard against loans whatsoever on real estate security. Finally it opened the way for two or three clean-handed young banks, who were destined, partly in filling the Upper Canada's place, to take rank among the leading banks of the Dominion.

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[1] I do not pretend to cite the documents for this or for a number of other statements made in relation to the Bank of Upper Canada; but I have them from contemporary authorities as credible as exist in the Dominion of Canada, and members, some of one, some of another party. Many of the bank's books were destroyed after the failure, and legal evidence of the misdoings referred to is not procurable. Very few of those who could speak from personal knowledge are now living.

[2] *Monetary Times*, Vol. III., p. 126.

§ 31.—THE PROVINCIAL NOTE ACT OF 1866

The Government in which the Honorable (afterwards Sir) A. T. Galt acted as Minister of Finance was obliged, in 1866, to raise some $5,000,000 to discharge the floating debt. The credit of the Province had suffered in the English market, on account of the renewal, from time to time, of the balances in arrears. The Minister averred that the Canadian banks were unwilling to extend to the Government a loan amounting to 15 per cent. of their capital.[1] The Bank of Montreal was already a creditor for $2,250,000, and was pressing for payment. The Government would not trust to the chance of meeting the engagements of the country by large loans at high rates of interest. "The Government," said Mr. Galt, "should resume a portion of the rights which they had deputed to others, and meet the liabilities of the country with the currency which belonged to it." In short, he acknowledged the primary cause of all paper currencies emitted by governments—government needs. But he professed to offer to Parliament the choice between issuing two year debentures at 7 per cent., receivable for public dues, and establishing a Government currency. The offer of the alternative was as insincere as his solicitude, in 1860, for the security of the bank note circulation. It was asserted in Parliament, and not denied, that note plates had been engraved two years before the bill was introduced, and that clerks were actually engaged in signing the notes while the bill was under discussion. The proposal to issue debentures was a sham and a delusion.[1] Furthermore the Minister's justification of his real plan was unsound. For those who wish it, the discussion of this contention will be found in the note at the end of the chapter.

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[1] Toronto *Globe*, 4th August, 1866, Ottawa *Times*, 4th August, 1866.

In Canada, a proposal to establish a provincial monopoly of the note issue would have conflicted with the convictions of a people inveterately suspicious of all monopolies, and taught by long years of colonial struggle to be particularly jealous of the executive. The Minister, accordingly, did not dare to propose the complete and instant abolition of the bank note currency used by the people for forty years. But he had his party behind him, he had pressing demands to meet, and he lacked, apparently, the courage to borrow, at the market rate of interest, the necessary funds. Shorn of the fallacy and verbiage with which he introduced it, his plan was simply to extend the activities of the Government in the economic field, by *assuming* the right to issue, under the authority of the Governor-in-Council, not more than $8,000,000 of provincial notes, payable on demand in specie at Toronto or Montreal, as they might be dated, and legal tender except at those offices. The Act received the Royal assent the 15th August, 1866. (29 Vic., cap. 10.) The compulsory retirement of the bank note circulation provided for in the original Bill was struck out in the House of Commons. Partly in its stead were adopted provisions for *inducing* the banks to surrender their circulation and to take up the issue and redemption of provincial notes The consideration offered was the payment of 5 per cent.

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[1] Ottawa *Times*, 4th December, 1867.

per annum on the amount of notes outstanding the 30th April, 1866, until the expiry of the charter of any bank which might accept the conditions of the Act and withdraw its own circulation before the 1st January, 1868, compensation to be paid from the date of such withdrawal. For the service of issue and redemption, one quarter of one per cent. was to be paid at the end of every three months, upon the average amount outstanding during that period of provincial paper issued by the bank. As a further inducement, banks giving up their issue rights were accorded exemption from the obligation to invest ten per cent. of their paid-up capital in provincial debentures, and were allowed to exchange them at par for provincial notes. The last was the offer of a decided bargain, for debentures were then worth not more than 83. The Receiver-General was obliged to hold specie for the redemption of the notes to 20 per cent. of the circulation under $5,000,000, and 25 per cent. for the circulation in excess of $5,000,000. He was to issue and hold provincial debentures for the full amount by which the reserve of specie should fail to cover the circulation outstanding. Proceeds from the issue operations were to be turned into the Consolidated Revenue Fund, and expenses lawfully incurred under the Act were to be charged upon it. The Free Banking Act was repealed save as to the privilege of issuing one and two dollar notes enjoyed under it by the Bank of British North America, and all the chartered banks were relieved from the penalties retained in the Act of 1858 for taking interest above 7 per cent.[1]

§ 32.—EFFECTS OF THE PROVINCIAL NOTE ACT

The condition of the money market and of trade in the autumn of 1866 was such that all but one of the banks were unwilling to reduce their resources by that retirement of their notes from circulation which acceptance of the Government's offer would have rendered necessary.[2] That single bank was the Bank of Montreal. As fast as it withdrew its own notes it was able to replace them by notes of the Province.[1] These were set off against the two and a quarter millions owed by the Government, the previous locking up of which may be presumed seriously to have crippled the operations of the bank. Or they may have been obtained in exchange for the $600,000 of debentures, worth about 83, formerly held by the bank according to charter, but now redeemed by the Government at par. The position of the Bank of Montreal was unquestionably improved by the change. Nearly three millions of assets, which for some time had been unavailable for immediate purposes, were put into liquid condition.

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[1] These penalties were those imposed by the Acts 51 Geo. III., cap. 9, U.C., and 17 Geo. III., cap. 3, L.C., viz., For taking, exacting, accepting or receiving interest above the authorized rate, forfeiture of thrice the value of the money, goods, wares or merchandise sent or bargained for, one-half to the Crown (later to the support of the Civil Government of the Province), and one-half to the person suing therefor. Since 1866 the only statutory restriction upon the rate of interest chargeable by the banks has been the impossibility of collecting at law the excess above legal rate.

[2] Parliamentary Debates, Canada, Vol. I, p. 802.

The effect on the total circulation in the hands of the public during the first year of the Bank of Montreal's operations under the Act, was inconsiderable. It received compensation upon $3,130,818, the amount of its outstanding issues on the 30th April, 1866; from November, 1866, to the 31st December, 1867, the average of provincial notes in circulation was $3,147,180.[2] The profit to the Government during this period and the following year was also inconsiderable; according to some calculations, a direct loss was incurred under the Act, but this point is not now pertinent.

What was the effect of the Act upon the banks and the country? A general answer must be postponed until the results of this legislation have been studied in detail.

First, then, while assets amounting to some $2,800,000 had been locked up in Government debt, the Bank of Montreal, it was said, had been sorely pressed by the Quebec and British Banks and La Banque du Peuple.[3] After the passing of the Provincial Note Act, it was put in a position to use its strength. It had been the practice to settle balances arising from the exchanges between the banks and branches in different parts of the country by drafts on Montreal or Toronto. Owing to its possession of the Government accounts, these balances were usually in favor of the Bank of Montreal. As the arrangements for balances were merely conventional, it had the power in this case to exact gold, unless its debtors happened to be stocked with legal tenders. But that was unlikely, as the demands on bank reserves were largely for export, and for this they needed gold. When the balances were against them the Government's bankers could pay in gold or in legal tenders. They had a direct interest in getting as many of the latter into circulation as they could. By threatening to exact settlements at all points in money, instead of in drafts upon the financial centres, the Bank of Montreal was able to coerce sundry of its competitors into holding regularly at least $1,000,000 of Provincial notes in sums ranging from $50,000 to $200,000, under arrangements which practically set these sums apart from the funds available for banking purposes.[1] For those who yielded to the threat the diminution of banking resources was considerable if viewed in relation to specie reserves, inconsiderable if in relation to their funds for discounting, but still a diminution. Banks with many agencies who refused to enter such arrangements were obliged either to hold larger reserves and distribute them more widely, while *pari passu* their power to discount was diminished, or to restrict their business to the volume which, under the new conditions, could be safely based upon the old reserve.[2]

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[1] Journal of the Senate, Canada, 1867-68, Appendix 1, p. 7.

[2] *Monetary Times and Insurance Chronicle*, Toronto, Vol. I., p. 369.

[3] *Ibid*, p. 101.

Second, "the Bank of Montreal, having withdrawn its own notes from circulation, and substituted for them the notes of the Province, it was no longer interested, in common with the other kindred institutions, in maintaining unimpaired the credit of all; the effect of that Act (the Provincial Note Act) was to place the interests of the Bank of Montreal, the most powerful monied institution in Canada and the fiscal agent of the Government, in antagonism to those of the other banks."[1] This conclusion of a Select Committee of the Senate is not refuted by the returns made by the several banks to the Government. Between the 30th September, 1866, and the same day of 1867, the proportion of specie or its equivalent held by the Bank of Montreal against immediate liabilities had fallen; the amount of notes issued by it and outstanding in the hands of the public had decreased, and so had the bank's public deposits.[2] The aggregates of the other banks showed an increase in each of these items. Assuming that there had been a general stagnation in business prior to October, 1867, the Bank of Montreal, compared to the other banks, was unprepared to meet heavy

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[1] Journal of the Senate, Canada, 1867-68, Appendix I, pp. 3, 7, 14, 19, 24. The Bank of Toronto held $100,000 of notes which could not be presented for redemption without fifteen days' notice, "to promote the financial interests of the Government and to secure favorable arrangements with the Bank of Montreal as to the settlement of balances," p 7.

The $200,000 held by the Bank of British North America under a formal arrangement with the fiscal agents of the Government was available at all times for ordinary business, but "*it must be made good in twenty-four hours and paid for by exchange, gold drafts on New York, or specie.*" It was terminable on seven days' notice and "was entered into to facilitate settlement of balances throughout Canada with the financial agents, and because it was agreeable to the Government," p. 28. The italics are my own.

[2] MR. JAMES STEVENSON, cashier of the Quebec Bank, said that ordinarily one-fifth of the circulation and deposits, and one-seventh the amount of time deposits, were sufficient money reserve, but that a demand for settlement in gold or legal tenders at all the agencies of an extended bank would compel the bank to keep at least one-fourth of the circulation and ordinary deposits as a reserve. *Ibid*, p. 24.

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[1] *Ibid*, pp. 1, 2. The document cited is the second report of the Select Committee upon the Causes of the Recent Financial Crisis in the Province of Ontario.

[2] The following figures are taken from a Government return dated 11th March, 1868, quoted in the periodical named below, and the usual "Statements of banks acting under charter," in the Canada Gazette:

Extracts from the Statements of Chartered Banks in the Province of Canada for 30th September, 1866, and 30th September, 1867, exclusive of the Bank of Upper Canada

Immediate Liabilities	Bank of Montreal 1866	Bank of Montreal 1867	Bank of Montreal as Gov't Bank, 1867-71	Other Banks, 1866	Other Banks, 1867
	$	$	$	$	$
Bank notes in circulation	3,187 995	657,862		6,716,324	8,477,058
Provincial notes in circulation			2,000,000		
" " in Bank of Montreal			385,693		
" " other banks			1,000,000		
Deposits by the public	8,078,762	7,505,201		14,648,883	19,651,188
" " government	1,015,052				
" " " provincial notes on hand		2,120,987			
Deposits by the government on issue account		351,995			
Due by Commercial Bank on loan					300,000
Due foreign banks					84,279
Total	12,281,809	10,636,045	3,385,693	21,365,207	28,512.525
Quick Assets	$	$	$	$	$
Specie	1,845,325	545,308		3,479,260	4,334,454
Specie held for redemption of provincial notes			677,138		
Provincial notes					1,000,000
Notes and cheques of other banks	324,325	379,430		1,095,425	1,559,212
Due by Commercial Bank		300,000			
" Foreign banks	885,736	976,260		1,541,383	
	3,055,386	2,201,006	677,138	6,116,068	6,893,666
Percentage of specie or its equivalent.	25 %	19 %		29 %	24 %
Change in specie, 1866-1867		—$622,879			+$855,194
" in circulation		— 530,133			+1,760,734
" in public deposits		— 573,561			+5,002,305

demands by the public. But if we adopt the Committee's conclusion and assume that there was general prosperity and soundness in trade, involving increased circulation and heavy deposits, the bank's position was such that, provided confidence in itself were undisturbed, a general discredit of the other banks would be, *à priori*, not only desirable but profitable.[1] Such a discredit would tend to increase the circulation of provincial notes, to attract depositors to the security of the Government bank, and to bring the "valuable accounts" of merchants to the great institution that could afford them discounts.

Third. In 1858 and 1859 the Commercial Bank furnished large advances for the current expenses and completion of an American railway, the Detroit and Milwaukee R.R., on the faith of a grant of £250,000 stg., secured from the London Board of the Great Western Railway. The bank supposed that the loans were made to the Great Western Railway, but under the Commercial's system of cash credits evidences of that corporation's liability were not secured at the time of each advance. "The advances were made by overdraft on current account, and the headings of the ledger as made by a clerk, as he carried the account from folio to folio, were so indefinite as to leave room for endless dispute."[2] The agreement was that traffic receipts of the D. & M. should be deposited with the bank, and exchange on the London Board of the G. W. R. Co. given monthly to cover deficiencies. Only about £82,620 stg. of this exchange were drawn. By the end of 1859 there was a large balance in favor of the bank. The Great Western's London directors contended that the credit was given to the D. & M., or to their own Canadian colleagues, who were managing the American enterprise, as individuals. Suit for a million odd dollars was brought against the English company in 1862.[3] The Court of Queen's Bench decided in favor of the bank. On appeal it was held, in 1864, that so much of the £250,000 loan as had not been drawn for could be recovered by the bank, that the lower court should have so declared the liability of the Great Western Company, and that, as it had not done so, there should be a new trial, unless the parties settled on this footing or ascertained the amount by a referee.[1]

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[1] *Cf.* the arguments in the *Monetary Times*, Vol. I, p. 419.

[2] Bullion on Banking, with notes and observations by a Canadian bank manager, Toronto, 1876, p. 24, note.

[3] 22 U.C. Queen's Bench Reports, p. 285.

During the litigation the capital, of course, was still locked up, and neither principal nor interest was settled for until the autumn of 1866. The bank then obtained $1,770,000 of Detroit & Milwaukee 30-year bonds, bearing interest at 7 per cent., $100,000 of which were payable annually.[2] But instead of selling them promptly the bank waited to realize upon the bonds, and thus failed to set free its locked up funds. The community suspected that the capital had been impaired. Distrust, inspired by the failure of the preceding year, was still strong. It became known that the bank had been obliged to give security to several of its largest depositors. A run was then started upon the deposits. A loan of $300,000 upon collateral, secured by the help of the Government's request from the Bank of Montreal, averted immediate danger. This was the 16th or 17th September, 1867. A month later another run upon deposits was begun. The representatives of all the banks in Canada West met at Montreal the 21st October. The Commercial Bank asked for an advance of $750,000, one-half at four, and one-half at six months, and offered the D. & M. bonds as security. A discussion ensued as to the amount to be contributed by each bank, the representatives of the Bank of Montreal and the Bank of British North America contending that the shares should be in proportion to circulation and deposits; the others for contributions in proportion to capital. The Bank of Montreal offered to advance two-thirds of the money necessary to sustain the Commercial, provided the other banks would guarantee it. The British Bank offered the other third on the same terms. This plan was rejected by the other banks. The two Montreal banks then withdrew from the meeting, the Bank of Montreal agreeing in the meanwhile not to discredit the Commercial, but refusing, practically, to grant assistance on the same basis as the other banks. An unsatisfactory understanding reached at noon was objected to by some of the head offices at five o'clock. Then the Bank of Montreal declined to accept the responsibility of taking in hand the affairs of the Commercial and protecting the creditors.[1] The Government was anxious to avert the failure, but as they were again owing the Bank of Montreal two millions and a half, they could not urge it to act. It is not apparent from the returns or circumstances that the latter had any interest in maintaining the credit of the Commercial or of other banks. The Privy Council did not feel justified further to interfere, and on the morning of the 22nd October the Commercial Bank of Canada stopped payment.[2]

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[1] 2 Error and Appeal, p. 285.

[2] Toronto *Globe*, 23rd October, 1866.

Over $2,000,000 of notes and deposits were paid in the thirty-five days after the 19th October. By the 31st December its total liabilities, averaging $4,657,000 in September, were reduced to $1,871,173. The amalgamation of the Commercial with any other bank or banks was authorized by the Dominion Parliament the 21st December, 1867. (31 Vic., cap. 17.) The contract with the Merchants' Bank of Canada, by which the shareholders got one share in the Merchants for three in the Commercial, was confirmed the 22nd May, 1868. (31 Vic., cap. 84.) All its liabilities were redeemed in full. The rapidity of this redemption, as well as the course of the bank previous to the suspension, can best be read in the table appended.[3]

Its shareholders lost two-thirds of their investments, and another of the Upper Canadian banks succumbed to the fate which overtook them all. But the failure of the Commercial Bank was honorable. It was the result, as we have seen, partly of one large and bad account, partly of the suspicion caused by the bank disaster of the year before. If, however, we accept the explanation given by its President, it must be said that the "real and ultimate cause was the measure which had been inflicted on all the banking institutions of the country."[4]

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[1] Toronto *Globe*, 28th October, 1867. Ottawa *Times*, 13th December, 1867, Mr. Galt's explanations respecting the Commercial Bank failure.

[2] *Ibid.*

[3] See Table next page.

[4] Ottawa *Times*, 4th December, 1867, Speech of Sir Richard J. Cartwright, upon the Commercial Bank Bill. I have hesitated to use this quotation because, though none other were published, the press reports of the debates in these years are somewhat unreliable. The distinguished speaker gave evidence to the Committee of the House of Commons in 1869, in which he remarked: "No appreciable disturbance was caused by the effects of the Act, the failures of the Bank of Upper Canada and of the Commercial Bank being clearly traceable to causes wholly unconnected with and unaffected by that measure." *Vide* Journal, 1869, App. I, p. 41.

AVERAGE MONTHLY STATEMENT of the Commercial Bank of Canada for the months of August and February, from 1857 to 1867 inclusive, from *The Canada Gazette*.

		LIABILITIES (000 omitted).					ASSETS (000 omitted).							
	Capital Stock paid-in	Promissory Notes in circulation not bearing interest	Balances due to other banks	Cash deposited not bearing interest	Cash deposited bearing interest	Total Liabilities	Coin and Bullion	Landed or other property of the Bank.	Government Securities	Prom. Notes or Bills of other banks	Balances due from other banks	Notes and Bills discounted	Other debts due to the bank not includ'd under the foregoing heads	Total Assets
	$	$	$	$	$	$	$	$	$	$	$	$	$	$
1857—Aug. 31 ...	3,561	1,430	418	781	541	3,171	420	162	365	140	369	....	5,963	7,419
1858—Feb.........	3,751	1,226	578	595	480	2,880	386	161	400	135	198	....	6,015	7,298
Aug.........	3,886	1,359	120	767	193	2,440	444	177	400	124	261	....	5,623	7,032
1859—Feb.........	4,000	1,526	319	1,066	282	3,194	480	199	400	175	529	....	6,113	7,898
Aug.........	do.	1,200	300	936	451	2,888	461	210	400	97	417	....	5,990	7,577
1860—Feb.........	do.	1,556	383	1,231	563	3,735	467	226	400	150	347	....	6,870	8,462
Aug.........	do.	1,412	112	1,255	945	3,726	517	226	400	128	774	....	6,356	8,403
1861—Feb.........	do.	2,192	236	1,285	948	4,663	538	239	400	150	274	7,487	271	9,362
Aug.........	do.	2,083	24	1,197	1,342	4,647	746	243	400	118	395	7,087	342	9,333
1862—Feb.........	do.	2,163	29	1,464	1,218	4,874	917	245	400	132	148	7,358	347	9,549
Aug.........	do.	1,393	499	1,237	1,091	4,241	616	248	400	132	77	6,927	300	8,701
1863—Feb.........	do.	1,264	518	1,108	1,085	3,976	544	250	400	142	45	6,775	283	8,441
Aug.........	do.	1,075	244	1,191	1,242	3,754	598	254	400	142	58	6,424	317	8,195
1864—Feb.........	do.	1,270	114	1,122	1,285	3,793	481	258	400	109	21	6,604	357	8,233
Aug.........	do.	1,015	108	996	1,346	3,467	379	258	400	101	22	6,374	368	7,904
1865—Feb.........	do.	943	339	932	1,256	3,471	412	262	400	76	39	6,343	370	7,905
Aug.........	do.	999	150	945	1,393	3,489	410	259	400	87	108	6,286	373	7,926
1866—Feb.........	do.	1,651	23	1,588	1,660	4,924	555	259	400	124	919	6,695	368	9,321
Aug.........	do.	1,295	34	1,469	1,709	4,508	455	262	400	129	543	6,836	359	8,986
1867—Feb..... ...	do.	1,594	66	1,648	1,597	4,906	656	276	400	149	301	7,237	356	9,377
June	do.	1,306	52	1,707	1,678	4,744	933	277	400	150	357	6,781	411	9,316
July	do.	1,270	64	1,679	1,675	4,689	917	277	400	159	282	6,629	499	9,166
Aug..... ...	do.	1,226	225	1,482	1,650	4,585	722	277	400	130	204	6,783	500	9,068
Sept.	do.	1,248	400	1,413	1,594	4,657	708	277	400	106	174	6,975	498	9,140
Oct.	do.	1,308	333	1,289	1,418	4,350	411	285	400	127	159	6,849	524	8,758
Actual Position (000 included)			Due to local banks.	Due to London agents.	Deposits and bank loan.	Total.	Cash.						See Note 1	
Oct. 31 ...	do.	1,102,166	40,202	303,229	2,015,996	3,461,683	484,475	285,861	400,000	Included in the item "Cash"		3,811,415	2,515,932	7,461,683
Dec. 31 ...	do.	483,284	17,127	220,517	1,110,245	1,871,173	395,604	285,715	400,000	do.		2,205,279	2,544,575	5,831,173

NOTE 1. This item was made up as follows:

October—			December—		
a.	Bonds and Mortgages	$ 109,365	a.	$ 107,550	
b.	Bonds of Detroit & Milwaukee R.R.	1,770,220	b.	1,770,220	
c.	Doubtful Debts	1,106,787	c.	1,101,951	
d.	Less Reserve Fund and Profits......	470,440	$2,515,932	d.	435,146	$2,544,575

Fourth. As the event was not altogether a surprise, the excitement occasioned by this failure soon subsided. But shortly after the Commercial suspended, the Bank of Montreal sent a confidential telegraphic caution to its branch managers against some of the western banks who, as individual concerns, were not in the strongest possible condition. On the 24th October a run was started on several of the Ontario banks. It increased the next day, the Royal Canadian being the most affected and the Gore next. Towards the afternoon of the 26th the run nearly ceased. Then came the alarming report that the Government's bankers were refusing the notes of the Upper Canadian banks except for collection. The panic returned with increased violence. Money rose from 9 per cent. to 12 per cent. in Montreal. The Royal Canadian managed to meet all the demands upon it, paying out over $400,000, but the panic abated only after the Government agents in all parts of the country had been instructed by telegraph to receive the notes of all chartered banks except the two that had failed (Upper Canada and Commercial).

The rumor that revived the panic was not, to be sure, exactly correct. The explanation of the action by the Bank of Montreal, offered through its General Manager, Mr. E. H. King, was that none of their agents had refused the notes of specie paying banks of Upper Canada, "*where they had agencies*,[1] except the manager of our Kingston branch, who acted under misapprehension and was immediately corrected by telegraph."[2] Two or three agents did decline to receive, except on collection, notes of the Royal Canadian Bank at places where they had no office.[3] The notes at Kingston had been thrown out of the deposit of a railway company, whose agent immediately warned all the officers on its line not to take the paper of that bank.[1] The damage was done long before the correction from the Bank of Montreal could reach Kingston.

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[1] The italics are mine.

[2] The news of the action of the Bank of Montreal reached the Government at 2.30 p.m., 26th October; that of the correction of the Kingston Manager, given by the Bank's head office, at 3.45 p.m. the same day. Ottawa *Times*, 13th December, 1867, *loc cit.*

[3] Journal of the Senate, 1867-68, App. I, p. 34. As a matter of fact, the notes of the Royal Canadian Bank were refused except for collection, by agents of Mr. King's bank at Belleville, Brockville, London, St. Mary's, Brantford and Stratford, as well as at Kingston. Toronto *Globe*, 28th and 30th October, 1867.

Those who gave evidence to the Senate Committee of 1867-68 were nearly unanimous in testifying that trade from the 1st of September to the middle of October was in a very satisfactory state; the yield of staple crops, if a little less than the year before, was still good, and the quality excellent, prices were high, money plentiful, and importations not excessive. The timber trade was somewhat quiet, but not enough so to affect the general prosperity. After the bank failure and the subsequent panic, uncertainty as to the attitude and intentions of the Government's fiscal agent, compelled the other banks, in great measure, to withhold the advances obtained in the autumn by produce dealers and others. Yet at this time of the year an expansion, both of discounts and circulation, was not merely normal, it was economically necessary. Trade, therefore, suffered ; produce operations were suddenly interrupted ; money was scarce and held at high rates; the value of the staple products of the Province was depreciated. The business activity of September was changed in November to business stagnation. If the failure of the Commercial Bank is counted the third of these results to which the Provincial Note Act contributed, the situation in which the panic was revived and commercial depression induced, must be taken as the fourth.

Fifth. The panic, I have said, was quieted by the action of the Government. The larger number of runs resulted in drains of not more than three per cent. of the total liabilities of the several banks affected. In the heaviest run, not more than ten per cent. of such total was called for. It is not to be supposed, however, that distrust vanished immediately. In this connection a comparison of the bank statements for the 30th September and 30th November will be instructive. The table herewith indicates the changes in each direction to be noticed in the November statement from that of two months previous.

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[1] *Ibid*, p. 15, Evidence of Mr. Woodside.

DIFFERENTIAL COMPARISON of the Statement of Banks acting under charter in Ontario and Quebec, for the months of September and November respectively, 1867[1]

	Bank of Montreal		Other Banks	
	Increase	Decrease	Increase	Decrease
Liabilities				
Gov't deposits on General Acct...	$679,997	....	....	....
" " on Provincial Note Account	502,540	....	....	....
Notes in circulation..............	....	$113,365	....	$317,594
Deposits by the public...........	1,201,424	....	....	1,842,818
Due by Commercial Bank on special loan......................	....	....	....	300,000
Balances due to other banks......	....	....	$420,590	....
Assets				
Specie and provincial notes	1,447,869	....	558,860	....
Government securities	....	766,239	....	56,672
Commercial Bank loan repaid	....	300,000	....	....
Due by other banks...............	464,228	....	....	....
Notes and bills discounted........	1,304,134	....	....	2,103,827

The increase and decrease in the immediate liabilities and quick assets of the Bank of Montreal and the other banks of Ontario and Quebec (Upper and Lower Canada), were as follows:

Aggregate changes from the September average in the November average

	Circulation		Deposits		Discounts	
	Increase	Decrease	Increase	Decrease	Increase	Decrease
	$	$	$	$	$	$
Other specie-paying banks[2]	533,753	851,347	410,502	2,253,289	749,506	2,853,333
Bank Montreal..	389,184[3]	....	1,881,400[3]	....	1,304,134	....

We have seen that in the months from September to December, there was, between the Bank of Montreal and the other banks, a difference of responsibilities, interests and position. The Government was depositing large sums in the Bank of Montreal, there to let them rest for some time.[1] The consequence of the distrust prevailing in the months mentioned is plainly apparent from the tables. The gain of the one bank, the loss of the others, must be reckoned the fifth result for which, in great measure, the Provincial Note Act was directly responsible.

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[1] *Cf.* The *Monetary Times and Insurance Chronicle*, Toronto, 1867, Vol. I., p. 457.

[2] Exclusive of the Commercial Bank.

[3] As the provincial note circulation was profitable to the Bank of Montreal, it figures under the item of circulation as the bank's own, and is, by consequence, deducted from the deposits made by Government.

The remoter consequences of this law will occasionally appear in subsequent pages. The more immediate effects detailed above were well summarized in a single sentence by Sir Richard J. Cartwright, delivered in the Dominion House of Commons the 3rd December, 1867:[2] "A statute more offensive, or more deliberately mischievous, or more calculated to prejudice Upper Canada, it was impossible to conceive."

In the discussion just concluded I have ventured somewhat beyond the strict limits of this part of our history. The Province of Canada came to an end the 1st July, 1867, when the territory which it comprised was divided, under the British North America Act of the Imperial Parliament, into the Provinces of Ontario and Quebec, and these two were united with Nova Scotia and New Brunswick into the Colonial confederation of the "Dominion of Canada."

To sum up the growth of the banks under the Union, a comparative table for 1841, 1851, 1861, and 1867 is annexed.

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	[1] Statement of average daily balances for month at credit of the Receiver-General in the Bank of Montreal	Average weekly balances of the Receiver-General's Issue Account with the Bank of Montreal	
		CREDIT	DEBIT
1867—June	$ 875,372	$ 164,800	......
July	363,277	345,393	......
August	639,137	336,995	......
September	1,653,482	230,195	......
October	1,977,619	742,793	... .
November	2 296 986	802,734	......
December	1,728,622	893,034	......
1868—January	1,010,247	1,186,742	......
February	1,331,311	517,034	......
March	1,816,591	293,090	......
April	1,632,148	28,500	......
May	1,932,985	......	$305,840
June	1,510,214	152,740	......

Sessional Papers of the Dominion of Canada, 1870, No. 38, pp. 6-8.

[2] Reported in the Ottawa *Times*.

AGGREGATE STATEMENT OF CHARTERED BANKS in the Province of Canada, 1841, 1851, 1861 and 1867 (£ currency)

LIABILITIES	1841 *a*	1851 *c*	1861 *d*	1867 *e*
Number of banks in operation	9 *b*	8	16	19
Capital stock authorized by Act	....	....	$35,266,666	$37,466,600
Capital stock paid up	£2,276,637	£2,897,619	24,410,796 *f*	27,618,440 *f*
Promissory notes in circulation not bearing interest	919,045	1,623,435 *f*	11,780,364	8,312,386
Balances due to other banks	340,771	271,621	444,120	2,771,925
Dividends unpaid	21,025	933	....	....
Net profits or Contingent Fund	146,410	59,845	....	....
Cash deposits not bearing interest, and all sums not otherwise specified due by the banks	780,468	1,126,305	9,175,957	13,038,447
Cash deposits bearing interest	54,858	505,320	9,545,341	14,765,579
Total liabilities	£3,677,065	£3,711,757	$30,945,341	$30,788,038

ASSETS	1841	1851	1861	1867
Coin, bullion and provincial notes *g*	£ 392,540	£ 413,422	$ 4,900,439	$ 7,384,107
Landed or other property of the bank	46,101	135,313	1,429,324	1,510,572
Government securities	24,661	43,825	2,735,956	6,142,573
Promissory notes or bills of other banks	148,342	144,375	1,130,153	1,051,772
Balances due from other banks and foreign agencies	203,580	218,501	4,157,280	5,068,635
Notes and bills discounted	3,282,150	5,573,983	39,588,842	48,158,431
Other debts due to the bank not included under foregoing heads	....	....	4,064,389	2,297,414
Total assets	£4,094,068	£6,529,769	$58,072,391	$72,213,597

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a Journal, Can., 1841, Appendix O. The several statements from which the total is secured are for days approximate to the 1st July, 1841.
b Includes Farmers' Joint Stock Banking Co. and Viger, DeWitt et Cie., private banks recognized by statute.
c Journal, Can., 1851, Appendix I, No. 1 to 8 inclusive. Statements are for days approximate to June 1st, 1851.
d The Canada *Gazet e*, Vol. xx., p 1736, Statement of banks acting under charter, for the month ending 30th June, 1861.
e The Canada *Gazette*, Vol. xxvi., p. 2245, Statement of banks acting under charter, for the month ending 30th June, 1867.
f This includes £620,000 stg., being the capital allotted by the Bank of British North America to its Canadian Branches.
g "Provincial Notes" occurs only in the statement for 1867.

NOTE.—RELATION OF THE BANK NOTE ISSUE TO THE PREROGATIVES OF THE STATE

The right to issue promissory notes, payable on demand, for circulation as money, was not originally a Government or Crown prerogative either in Great Britain or the colonies. It was the common law right of any one who chose to exercise it. The prerogative of drawing cheques or bills of exchange, of giving deposit receipts or promissory notes payable at a time future, could have been claimed just as logically as that of issuing bills for circulation. These instruments are all the documentary evidence of rights to demand, and all are available, all are used to effect transfers of rights to money or to goods expressed in terms of money. They are distinguishable, not by their function, but merely by their form and the different degrees of credit and transferability with which the different forms are endowed. The differences in the legal rules respecting them rest on the differences in the place, time and manner of payment, the persons to whom the payment is made, and the persons immediately or secondarily liable for that payment. In questions touching the economic essence of transactions in such paper, the legal rules are the same. Thus, *e.g.*, where the transfer is without indorsement, whether it be a sale of the bill or note, or an exchange, or by way of discount, or where the assignee agrees expressly to take it in payment, he can neither recover against the assignor upon the bill, nor recover back the amount given for it, on account of failure in the consideration, unless, indeed, the assignor knew the bill or note to be that of an insolvent when he assigned it.[1] The same principle obtains with regard to bank notes.[2]

But the difference between the notes of a solvent bank and coined metal or a legal tender Government currency, is one that cannot be too often or too strongly insisted upon. The one is an instrument of credit, a mere representative ; the others, lawful money, the legal standard of value and the legal means of payment. Bank notes circulate and are used in money's stead, with like effect, only by virtue of convention. Current bank notes are a lawful tender in payment of debts only when the creditor does not object to them, as not money, and demands payment in coin. But an offer of current coin or Government currency endowed with forced circulation, whether or no it be convertible into specie, is a legal tender unconditionally. In short, bank notes *may* be, money *must* be accepted as payment. There is, therefore, no true analogy between the issue of promissory notes, payable on demand, and the determination and issue of the standard of value and the legal tender, as an exercise of the State's sovereign power. To premise such an analogy and to deduce from the mint prerogative the exclusive right of the State to issue a convertible fiduciary currency, is a process, specious perhaps, but illogical, unhistorical and dangerous. The true explanation of State interference with matters of banking and the issue of bank notes is to be found in the general powers of supervision and regulation exercised by Government in the supposed interest of the public, and in the conditions which Government has been able to exact in return for the concessions sought by the banks.[1]

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[1] Daniel on Negotiable Instruments, Fourth Edition, New York, 1891, § 739.

[2] *Ibid*, § 1677. *Cf.*, also, WEIR, The Law and Practice of Banking Corporations under Dominion Acts, Montreal, 1888, pp. 148-163.

It follows that two of the propositions implied by Mr. Galt when he urged that the Government should resume a portion of the rights which they had deputed to others, were radically incorrect. These propositions were: first, that the right of the banks to issue notes had been originally derived from the Government; and, second, that the prerogative of issuing a fiduciary currency pertained to the Government.

The right to issue bank notes existed and was exercised both in Lower and Upper Canada before banks ever became a subject of legislation. It was exercised by private banks, and without legislative sanction, for a considerable period after the early charters were granted. And in 1837-38 both Provinces interfered with the private note issue, not as an infringement on Government prerogative, but as a menace to the public security. Upper Canada recognized the worthy private banks and permitted them, under supervision, to continue their business. Lower Canada, through the Special Council, prohibited only such banks as would not obtain licenses, furnish and publish returns, and submit to the regulations imposed by law. The chartered banks had accepted Government regulation in return for the concessions of incorporation, the currency of their notes in the revenue, assured protection against forgery, the power easily to enforce stock subscriptions, and the like. The charters confirmed and limited the right to issue notes, but they could not depute it. For the Lower Canada banks, at least, it was a pre-existing right which they had already exercised. The first proposition implied by Mr. Galt is, therefore, not to be accepted.[2]

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[1] CHITTY on the Law of the Prerogatives of the Crown (London, 1820) contains no mention whatever of prerogatives in respect to the currency other than the establishment of the standard of value and the minting of specie. The lack of the prerogative of note issue in the positive public law of Great Britain was satisfactorily established by TOOKE, in his History of Prices. *Cf.* also, WAGNER Die Geld u. Credit-theorie der Peel'schen Bank Acte, Wien, 1862, pp. 65, 73, 74.

Confirmation of the principles just formulated in the text will be found, for the first, in the preamble of the Act to protect the public against injury from private banks, quoted on p. 101; for the second in the statements of the petitions for incorporation presented to the Legislature of Lower Canada in 1821, and in the preambles of the charters passed in answer to the prayers, p. 11, *supra*.

[2] I am aware that this position is quite opposed to that held by the late Premier of the Dominion, Sir John A Macdonald. Speaking to the House of Commons, the 4th April, 1880, in reply to Mr. Mills, of Bothwell, upon the currency resolutions brought down by the Minister of Finance, Sir Leonard Tilley, he said. "If it was admitted that the same power, sovereignty and nation had the right to issue gold or any other circulating medium, it must of necessity have the right, if it chose to claim it, of issuing what was equal to gold and silver." Then, after a reference to the undisputed prerogative of the State to prepare or cause to be prepared coins of gold, silver, copper or what not, and give them legal currency, "if paper promises to pay were accepted as equal to gold and silver, the argument was clear." He had always thought the people and the government synonymous. The banks had no vested right to issue, the right to make money is in the Crown—in the people. "It was a matter of grace, of expediency, of legislation, by which the Crown gave up a portion of its exclusive right to issue what was called money to the banks, whether private or public." But it is easy to judge from this how, by a false analogy, the great statesman confused money with those instruments of credit which, in a popular sense, are often spoken of as money, and are conventionally used in substitution for it Resting, as it does, upon this fallacy, even Sir John Macdonald's reasoning cannot be approved. We must still reject the theory of a Crown prerogative of issue.

In the second place, the power to issue a fiduciary currency concurrently with the banks, or even the right to emit a legal tender paper, had never been independently exercised by a Canadian Government either before or after the Union. The Army Bills of 1812-15 are not a pertinent case, inasmuch as in that affair the initiatory steps were taken by the commander of the troops, sent out from England, and the transactions conducted largely under his direction. What the local legislatures did was to give the bills currency. I will not deny that the right existed, for in Nova Scotia there were some £100,000 of legal tender provincial notes in circulation. But to the theory of its possession by the Upper Province before the Union, the refusal of the Imperial authorities in 1839 to allow the issue of legal tender notes payable in one year after date, is a serious obstacle of fact. Lord Sydenham's proposals in 1841 were for the creation of a Bank of Issue, not of a currency issued directly by the Government. The nearest approach to Mr. Galt's scheme was the device employed by Sir Francis Hincks in 1848-49, viz., the payment of current debts of the Government in short date, interest-bearing debentures for small sums, negotiable only under par. Yet this, or anything else revealed by rather careful research into the history of Canada previous to 1866, will not satisfactorily establish the actual existence of a government right to emit fiduciary currency. Much less will it justify the pretence of a government prerogative of note issue. The second proposition implied by Mr. Galt fails as completely as his first.

For the discussion of a bank note currency, or of any currency, it is indispensable to rest upon the correct theoretical and legal basis. Once it is recognized that the business of issuing notes for circulation, promising payment, and payable upon demand, is essentially similar to any other business in instruments or forms of credit—once it is seen that, historically and practically, note issue is no more a prerogative of Government than life insurance, receiving deposits at call, or drawing foreign exchange, the way is barred to many a fallacy and delusion. The cry that "the profits of the circulation should belong to the Government," then appears no less ridiculous than the plaint, "the profits of the flour mills, the shoe factories, the building societies, should belong to the Government." The business of note issue, rightly conducted, requires capital just as other economic activities; like them, it pays profits, for the saving of the interest on a currency of intrinsic value accrues, in the first instance, directly to the issuers. The public, however, derive advantage from this saving, as they gain from other economies and improvements in production, viz., through the reduced costs of production and the consequent lower prices to consumers. Those who deal with the banks get their services at rates which, without the issue profit, would be impossible. With those who do not so deal, the gains of those who do are divided through the cheapening of the commodities exchanged or produced with the assistance of the banks. Under a *régime* of competition, the capital invested in a bank issue cannot, in the long run, earn a higher return than other capital invested at equivalent risks.

The contracts which result from issue operations, must be enforced, like other contracts, by the legal and judicial organization of the State. To provide for the security of such contracts, prevent frauds and avert public injury, the Government may regulate and supervise the note issue as it does the operations of common carriers, insurance companies and monied corporations of other kinds. The gain from the note issue, in common with other income, will be a legitimate subject for taxation, but not for such as violates the canons of equality and uniformity. If a necessitous government is constrained to derive greater revenue from the note issue than is possible by leaving it in private hands, it may by the exercise of sovereign power, exclude all but itself from this department of economic activity. This practically is what many European states have done. But those who guide a nation's policy may well weigh carefully the commercial disadvantages attending such a usurpation, and the tendencies towards forced circulation, fiat money, depreciation and repudiation which it is likely to release.

CHAPTER VI

NEW BRUNSWICK AND NOVA SCOTIA

§ 33.—THE BANK CHARTERS OF NEW BRUNSWICK

THE first bank established in this Province was chartered as the President, Directors and Company of the Bank of New Brunswick, by an Act of the local Legislature, which received Royal assent the 25th March, 1820. As expressed in the preamble, it was the opinion of the House of Assembly that "the establishment of a bank in the city of St. John will promote the interests of the Province by increasing the means of circulation." (60 Geo. III. cap., 13, N.B.) The capital stock was limited to £50,000, and the payment of the whole required within eighteen months. In 1821 the stock limit was reduced to £30,000, and four years later raised again to £50,000, on "account of the increase of the trade of the Province." The President, Directors and Company of the Charlotte County Bank, to be situate at St. Andrews, were incorporated in 1825, with a capital stock of £15,000, all to be paid up within a year and a half. (2 Geo. IV., cap. 20.) Both these banks were smaller than those established in Montreal, Quebec and York in 1817, 1818, and 1822, and it is manifest that they were intended to be local affairs, but the New Brunswick charters are different in only a few essential respects from those passed in Upper and Lower Canada. The limitation upon the total debts which might be owed by these corporations was more strict, being twice the amount of their paid-in capital stock, and the term of their charters was twenty years. In 1834 the Central Bank of New Brunswick was incorporated, and provision made for establishing it at Fredericton. (4 Wm. IV., cap. 44.) The Act of incorporation contained a number of new provisions similar in effect to those recommended by the Committee for Trade of His Majesty's Privy Council in 1830 and 1833.

No bank bill, *e.g.*, was to be issued until £7,500 (one-half the authorized stock) were paid in. The Governor was empowered to appoint commissioners who should count the money in the vaults and ascertain whether it were *bonâ fide* capital. (This authorized stock was raised in 1836 to £50,000.) The stockholders were made chargeable in their private and individual capacities for the payment and redemption of any bills issued by the corporation, and for the payment of all debts at any time due from the corporation, in proportion to the stock they should respectively hold, but not to exceed the amount of the stock actually held by them, nor in exemption of the joint stock of the corporation from liability for its debts and engagements. Loans on the pledge of the bank's own stock were forbidden. Provisions were introduced with respect to the distribution of the capital stock and profits among the shareholders in case of dissolution of the bank, and to the continuation of their liability to redeem the notes in circulation for two years and no longer after the date of the dissolution. Debts of the directors to the bank, either as principals, sureties or indorsers, were limited to one-third of the paid-in capital stock, and semi-annual returns to the Secretary of the Province were required. No note or bill offered for discount was to be excluded by a single vote. A list of the delinquents was to be furnished to the Board upon discount days, and the presence of his name in the list was to disqualify any director from sitting on the Board.

In 1834, the Commercial Bank of New Brunswick was incorporated by Letters Patent.[1] The charter of the St. Stephen's Bank passed in 1836 (6 Wm. IV., cap. 32) created a corporation capitalized for £25,000, and subjected to the provisions already described. It added the rules that no stockholder should own more than twenty per cent. of the capital stock and that "no action shall be brought or maintained upon any bank bill or bank note issued by the corporation, before such bill or note shall have been presented at the bank for payment, and default in payment thereupon shall take place." Upon shares seized and sold under execution, the bank did not enjoy the prior claim for stockholder's debts which it could enforce before transfers of stocks in other ways became valid. The limitation upon total debts was altered by excluding deposits from the amount which should exceed twice the capital stock paid-in. The City Bank was incorporated the same year. Its location was to be St. John; its capital £100,000, half to be paid in one year, and half within five years. But the City Bank had a short existence. The Bank of New Brunswick received permission to double its capital in 1837, and was subjected to new provisions similar to those detailed. (6 Wm. IV., cap. 57.) By an Act of 1839 the City Bank was united to the Bank of New Brunswick and merged within it. (2 Vic., cap. 26.)

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[1] The Charter Acts of the General Assembly of the Province of New Brunswick, 1853, p. 81.

The year 1837, however, was not altogether one of diminished banking competition. The Legislature in this session granted the Bank of British North America powers to sue and be sued in the name of a local officer, and facilitated its business in other ways. (8 Wm. IV., cap. 16.) Afterwards, between 1841 and 1866, various additions to the capital stock of the four existing banks were permitted, and their charters extended to dates between 1870 and 1876. The Shediac Bank was incorporated in 1856 (19 Vic., cap. 66), the Miramichi Bank in 1857 (20 Vic., cap. 28), and the People's Bank of New Brunswick in 1864. The Miramichi Bank was proposed for Chatham, N.B., and the authorized capital was £20,000. The People's Bank was established at Fredericton with a capital stock of $60,000.

In this and the subsequent legislation, provision was made for increasing the capital stock of the banks upon the initiative of the shareholders and without further legislative sanction. New stock was always, according to law, to be disposed of at auction, and the premium paid upon it divided *pro rata* among new and old shareholders. But in other respects the bank charters granted in 1856, 1857 and 1864 are in no way different from those of 1834 and 1836. All the banks, however, had been forbidden by an Act of 1838 (1 Vic., cap. 18), to issue notes of a less denomination than five shillings or notes of denominations not multiples of that sum. For violation of the Act there was imposed a penalty of £25, recoverable in courts of competent jurisdiction by the first person suing therefor, one-half for himself and one-half to the use of the Province. Receiving the notes and checks denounced by the Act rendered one liable to forfeit a sum equal to the nominal value of the instrument.

Some years previous to 1865, the Charlotte County Bank ceased its operations and business and paid off, so far as they had been presented, all claims upon it. In the year named it was authorized, after newspaper notice for twenty-four months, to wind up its affairs, and divide the assets remaining among the shareholders, the further liability of whom for the debts of the bank was thereupon to cease and determine. (28 Vic., cap. 44.) A similar Act was passed in 1868 with respect to the Central Bank of New Brunswick. (31 Vic., cap. 56.) In the sessions of 1865 and 1867, on the contrary, the establishment of a number of new corporations was authorized; the Albert Bank, the Woodstock Bank, the Northern Bank, the Merchants' Bank of New Brunswick and the Eastern Bank of New Brunswick were all granted charters. I am not aware, however, that to any of these undertakings was subscribed and paid the capital required by law before they could begin business. In this they were as unsuccessful as the Miramichi and Shediac banks of the preceding decade.

At the time that New Brunswick entered the Confederation the Bank of New Brunswick, the Commercial Bank of New Brunswick, the St. Stephen's Bank and the People's Bank were in operation, the Westmoreland Bank in liquidation, and the five other charters just named were still available.

§ 34.—NOVA SCOTIA

The banks in Nova Scotia were neither so many nor so old. The establishment of a bank at Halifax had been mooted, to be sure, in 1801, and £50,000 of the capital subscribed, but it was proposed in this connection that no other bank should be established by any future law of the Province during the continuation of the corporation. The feature of monopoly was probably fatal to the plan's success,[1] as the bank was not started. Another project for a joint stock bank was published by the Halifax Committee of Trade in February, 1811, but no action was taken in the matter by the Assembly.[1] In 1825, however, a private bank of issue, discount and deposit, was started in Halifax, the advertisement of opening, upon the 3rd September, being signed by eight partners.[2] This was the Halifax Banking Company, which in 1872 was sold out to the present chartered bank of the same name.

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[1] MURDOCH, History of Nova Scotia, Vol. 3, p. 205.

There can be little doubt that the extension of the banking system was somewhat delayed by the circulation, as money, of the Treasury notes of the Province. Since 1812 the Province had had in these a paper currency which was seldom, in large amounts, immediately convertible into specie, and never, in point of elasticity, comparable to a bank note circulation. Yet it sufficed to work a certain economy of specie, to give some help to the Treasury, and to serve the colonists as a medium of exchange at a time when the specie circulation was neither abundant, uniform, nor satisfactory.[3]

Finally, the Legislature became convinced that the "establishment of a public bank will be greatly advantageous to trade and commerce, and otherwise advance the interests of the Province by increasing the circulating medium of business, and promoting a more extensive and beneficial employment of the resources and industry of all classes of its inhabitants."[4]

To further such purposes, and to grant the prayer of certain petitioners, the Bank of Nova Scotia, the first chartered bank in the Province, was incorporated by an Act approved the 30th March, 1832. (2 Wm. IV., cap. 50, N.S.) Its authorized stock was £100,000 in 2,000 shares of £50 each. Business might begin when £50,000 were subscribed and paid up in specie or Treasury notes. Land might be owned in fee simple to the value of £5,000. But loaning upon the bank's own stock, upon mortgage or upon real estate, was prohibited. Each director was required to hold twenty shares, and might not be a director in any other bank either within or without the Province. Shareholders with one to two shares had one vote. For more than two shares they voted according to a scale, by which the holder had one vote for each two shares above two and not above twelve, for each three above twelve and not above thirty, one vote, and for each five above thirty, one vote ; but no shareholder was allowed more than fifteen votes, or to hold more than three proxies.

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[1] *Ibid*, p. 308.

[2] *Ibid*, p. 538.

[3] The principal details of the Treasury Notes legislation are given in the note at the end of this chapter.

[4] *Vide* preamble, 2 Wm. IV., cap. 50, N.S.

In case of loss or deficiency in the capital stock of the bank on account of the official mismanagement of the directors, the shareholders were liable for debts of the bank in their private and individual capacities, but not liable to pay a sum exceeding the amount of stock actually held by them respectively, in addition to the stock so held. This was the Nova Scotian expression for the double liability of stockholders, adopted by New Brunswick in slightly different phrase a few years later. The debts of the corporation, exclusive of the sum due on account of deposits, were limited to thrice the amount of the capital stock paid in. As in New Brunswick, this restriction was the only limit upon the amount of the notes which might be issued. In case of excess, both the corporate property, and the directors in their individual and several capacities, were to be liable. The bills and notes of the corporation were to be payable on demand in gold and silver. Notes for less than twenty-six shillings were forbidden. If the bank should refuse to redeem its notes in specie, it incurred the penalty of paying interest at twelve per cent. per annum upon their face value, from the time of refusal to the time of payment. A statement of the bank's affairs was to be made to the annual meeting of the shareholders, and a copy sent to the Secretary of the Province. Either by order of the Governor-in-Council or by a joint committee of the Legislative Council and House of Assembly, the bank might be investigated. And if it should then appear that the capital stock had been diminished by loss and bad debts to half the sum subscribed, it was provided that the corporation should be dissolved.

Such were the important provisions of the first bank charter passed in Nova Scotia. The structure of the corporation, its powers and the restrictions upon it were of the same general type as of the banks of the other Provinces. There is no need to describe in complete detail legislation so like that already familiar. But in (*a*) the stipulations for payment of capital, (*b*) the double liability of shareholders, (*c*) the minimum placed upon the denomination of bank notes issued, (*d*) the penalty for suspending specie payments, and in (*e*) the provision for winding up the bank in case the stock were badly impaired, the charter is distinctly in advance of any previously passed by other British North American Provinces, and in force in 1832. In the first three of these peculiar restrictions, the reader will unquestionably detect the influence of the suggestions made by the Committee of the Privy Council for Trade in 1830. The purpose of the fourth and fifth is evidently the same as that sought by the Imperial authorities, viz., maintenance of redemption and preservation of a capital guarantee, but the means most closely resemble those adopted in the legislation of Massachusetts.

For five years the Bank of Nova Scotia was the only chartered bank in the Province. In its first ten years it divided among the shareholders profits at the average rate per annum of 8.9 per cent. of its capital and increased that capital to £140,000.[1] After 1842, however, dividends rarely exceeded 6 per cent.

One reason was the competition of the Bank of British North America, which had begun business in Nova Scotia in 1837, and secured the right to sue and be sued in the name of a local officer in 1838. (1 Vic., cap. 24.) Then there was the statute of 1834 (4 Wm. IV., cap. 24), which prohibited the issue of bank notes for sums less than £5, and thus closed to the banks the profitable and important business of circulating the one and two pound notes necessary for retail exchanges. It also provided that all bank notes should be made payable in gold and silver to the amount of their face value to the bearer or holder of the undertaking and upon demand, or bear interest at 12 per cent. per annum from the day of refusal to the day of final payment. Notes payable to real or fictitious persons and transferable by indorsement were made negotiable by delivery merely and the indorsement declared unnecessary. The penalty of £10 imposed for each note, bill of exchange, draft or check issued for less than £5 was recoverable by action for debt, one-half to the prosecutor and one-half to the Crown. Forgery of the notes was punished by not more than seven years in the Bridewell at hard labor, and all the costs of prosecution ; theft, by the same penalties as were imposed for stealing other things of equal value.

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[1] Journal of the House of Assembly of the Province of Nova Scotia, 1846, Appendix 18.

Another cause of the lower profits of the Bank of Nova Scotia may be found in the constitutional struggle which was carried on in the Province in the earlier part of this period, and the commercial disturbances due to it. To compel the Executive annually to convene it, the Legislature adopted the policy of continuing necessary Acts for one or two years only. Between 1841 and 1846 the charter of the Bank of Nova Scotia and the amending Act of 7 Wm. IV., were thus continued no less than five times, in order annually to prevent their expiry.

At last, in 1847, the charter was continued for 10 years. The form of semi-annual returns to the Government recommended by the Lords of the Treasury was adopted, and the penalty of charter forfeiture imposed for note issue in excess of the statutory limit (thrice the capital stock paid up). (10 Vic., cap. 57, N.S.) The charter was again extended in 1856 for a period of 15 years, and permission granted to increase the capital stock to £400,000. (19 Vic., cap. 95.) By another Act of the same session, the Legislature incorporated the Union Bank of Halifax. In 1859 the Bank of Yarmouth was chartered ; in 1864 the People's Bank of Halifax, and the Mutual Bank of Nova Scotia ; and in 1865 the Commercial Bank of Windsor.[1]

These later charters repeated almost *verbatim* the provisions of the amended Act governing the Bank of Nova Scotia. The banking system as originally worked out caused so few difficulties and promoted so much the convenience and prosperity of the colonies, that they felt very little temptation to change it. The banking history of Nova Scotia, therefore, is

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[1] For these banks the charters provided

	Authorized Capital	Charter Expires	Required to be paid up before beginning business
Union Bank of Halifax................	£250,000	1871	£50,000
Bank of Yarmouth	50,000	1871	12,500
People's Bank of Halifax	$400,000	1879	$160,000
Mutual Bank of Nova Scotia	1,000,000	1869	250,000
Commercial Bank of Windsor..... ...	200,000	1885	50,000

not eventful. The private banks carried on all branches of banking, including note issue, in competition with the chartered banks. Their proprietors were men of wealth; they enjoyed the confidence of the community, and conducted their business according to recognized banking principles. The currency law, with its penalty for suspending specie payment, sufficed to keep the note circulation secure and within proper bounds. Down to 1873 a bank had never failed in the Province of Nova Scotia, nor had the finger of suspicion been pointed at any of them, either chartered or private.[1] When the province joined the Confederation five banks were acting under local charters, viz., the Bank of Nova Scotia, Bank of Yarmouth, People's Bank of Halifax, Union Bank of Halifax, and Merchants Bank of Halifax; the charter of the Commercial Bank of Windsor was still available.

§ 35.—RELATION OF BANK LEGISLATION IN THE MARITIME PROVINCES TO THAT OF THE DOMINION

I. In the two greater Provinces whose bank charters have been discussed, we found that the first legislation was shaped on almost the same lines as that of the Canadas. Still, the banking history of Nova Scotia and New Brunswick is much simpler. The system originally established was subjected to no such energetic and repeated attacks, either by scheming individuals or by the Government of the day, as we meet in the Provinces of Upper Canada and Canada. On the other hand, we may detect a certain similarity in the forces moving in the later stages for the improvement of the system. Whether the safeguards latterly inserted in bank charters were a purely local development, is a question that hardly needs to be raised in the cases of New Brunswick and Nova Scotia. The constitutional governments of these Provinces were in no substantial respects different from that of the Canadas. The Eastern colonies were kept in pretty much the same sort of tutelage by the Colonial Office in Downing Street as those in the West. We know that the Treasury regulations were transmitted, as circulars, to the colonies generally, with instructions for their observance. Lord John Russell's despatch of 1840 appears in the legislative documents of New Brunswick. Reference to the actual statutes shows that subsequently to the receipt of the Treasury regulations, provision was made in bank charters that the spirit of the more essential rules should be observed.

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[1] Journal of the House of Commons, Canada, 1869, Appendix I., p. 62, Evidence of MESSRS. ROWLEY, KILLAM and LEWIN.

II. As Newfoundland is no part of the Dominion, it is unnecessary to treat of banking there. Prince Edward Island, though within the Confederation, is of no such importance that its banking laws could have affected the measures adopted by the Dominion. We may, accordingly, disregard the banking history of this colony until it becomes a part of the broader study.

III. Even Nova Scotia and New Brunswick, before the Confederation, were, in great measure, self-contained communities. Though exporting some natural products and buying manufactured supplies abroad, they were not, on the whole, strongly affected by the commercial movements in other parts of the world. Nova Scotia, for instance, suffered practically nothing from the crises of 1837 and 1857. New Brunswick, however, experienced severe commercial depression in 1848, in consequence of heavy importations during the preceding period, and a falling off in the demand for its principal exports.

Banking was chiefly confined to the cities of St. John and Halifax, and two or three of the seaports next in importance. The other towns carried on their business through the cities. Branch banking had not yet received that extension which, since Confederation, has brought the office of a strong bank to every town and almost every considerable village. Besides the ordinary business of receiving deposits, issuing notes, and discounting for local purposes, the banks enjoyed a profitable business in exchange. The trade with Upper and Lower Canada was small, but they bought and sold large amounts of bills upon Boston, New York and London. During the period of Reciprocity the American trade was especially important, as that market for fish and timber was wide and active. Indeed, the principal business of Nova Scotia at this time was shipping fish and timber to the West Indies and the United States. The returns from these shipments were mostly in sterling exchange, which was sent to London and drawn against to pay for dry goods, hardware, and other colonial necessities. The banks also obtained large amounts of sterling bills from the Imperial authorities at Halifax, in exchange for specie to pay the troops and buy supplies for the garrisons.

The growth of business between 1832 and 1841 was especially remarkable in New Brunswick. It is best illustrated by the returns made to the Provincial Governments in these years. For purposes of comparison, returns for 1851, 1861 and 1867 are given in the same table. Such returns of Nova Scotia banks as I have been able to secure are also given. They are few, as there appears to have been no regular publication of statements from the chartered banks of Nova Scotia, either in the legislative documents or the *Royal Gazette* of that Province.

Statements of banks acting under charter in the provinces of N. Brunswick and N. Scotia for various dates between '32 and '67[1]

[a]	NEW BRUNSWICK					NOVA SCOTIA		
	1832	1841	1851	1861	1867	1841	1846	1867
No. chartered b'ks in operation	2	4	5	5	4	1	1	5
LIABILITIES[b] (s & d. omitted)								
Capital stock paid-in	£ 64,007	£329,693	£325,000	$1,600,000	$1,480,000	£125,000	[illegible]	$1,552,380
Balances due to other banks	..	11,299	10,515	79,286	142,053	[illegible]	[illegible]	[illegible]
Bills in circulation	88,098	160,220	192,179	1,175,209	991,033	[illegible]	[illegible]	[illegible]
Cash deposited not bearing int.	15,902	50,197	73,488	419,054	525,792	70,712	73,173	470,073
Cash deposited bearing interest	..	6,824	29,017	163,811	509,687			1,451,81[illegible]
Drafts on the bank *in transitu*	..	..	..	..	..	2,482	1,277	..
Nett profits on hand	1,239	10,230	30,990	243,040	..	6,830	6,560	..
Profit and loss	180	..	..	..	..	..	..	..
Total	169,428	568,474	661,107	3,680,403	[illegible]	315,304	[illegible]	2,590,171
ASSETS								[c]
Gold, silver & other coined metal	11,825	36,218	48,726	179,151	348,034	20,774	27,899	407,308
Provincial Treasury notes	..	..	..	..	..	2,507	2,002	..
Due from other banks	..	29,102	48,817	235,843	217,927	[illegible]	[illegible]	38,809
Bills of other banks	3,872	41,769	12,121	84,181	103,527			50,752
Real estate and bank premises	3,242	15,000	16,133	81,714	58,739	4,171	3,158	58,938
Due by agents abroad	..	..	..	..	..	8,698	46,440	..
Notes, bills of exchange and funded debts	150,325	446,575	535,395	3,096,507	3,027,315	268,037	202,872	3,713,365
Government securities	..	..	..	..	..	..	..	135,000
Other assets	163	..	..	..	212,201	..	..	108,404
Total	169,428	568,474	661,107	3,680,403	3,968,360	315,304	[illegible]	4,590,867

[a] None of these returns, except those for 1867, were drawn up at the same date of the same year, so that the figures given are at the best typical rather than accurate.

[b] In no case do the footings represent the exact sum of the items given; the differences are due to the omission of shillings and pence.

[c] Figures in the "assets" half of this column are approximate.

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[1] Compiled from the Journals of the House of Assembly of N.B. and N.S. respectively, and the Canada *Gazette*.

IV. Finally, the Provinces of Quebec and Ontario were to enjoy in the councils of the Dominion a certain preponderance, as well on account of their greater wealth, population and trade, as of their larger representation in Parliament. Where the precedents and laws of the Maritime Provinces differed from those of the Province of Canada, the legislation of the Dominion was generally drawn up according to the Canadian lines. Especially is the effect of this tendency to be remarked in the legislation with regard to the banks. Those in Canada, both in the aggregate, and for the most part individually, were superior in power, resources and influence, to those of the Maritime Provinces; their efforts to preserve the continuity of their own development were destined to prevail over similar attempts by weaker rivals. It is the more necessary, accordingly, to know well the charters granted in Canada, and the forces there at work. This study was the purpose of the chapters II to V.

For the four reasons offered in the preceding paragraphs, a further study of the banking history of the Maritime Provinces need not be undertaken. It cannot materially serve our present purpose to trace the development of the banking system which prevails in Canada to day.

NOTE.—THE TREASURY NOTES OF THE PROVINCE OF NOVA SCOTIA

The Treasury Note issues began in 1812. The first amounted to £12,000 of notes bearing interest at six per cent., receivable at the Treasury for public dues and not re-issuable. Warrants on the Treasury were made payable in gold, silver or Treasury notes, at the option of the payee. (52 Geo. III., cap. 7, N.S.) The subsequent legislation is an example, in many ways, of the course usually run by fiduciary issues of governments. The ultimate redemption, however, was somewhat more creditable than the average.

This issue of 1812 was withdrawn in 1813 and a new issue authorized of £20,000 in non-interest bearing and re-issuable notes. There were provisions for funding the notes in amounts of not less than £100, by interest-bearing certificates, in case the Treasury had no gold. The notes issued under this statute were not payable on demand in specie until three years after the date of publication of the Act. (53 Geo. III., cap. 15.) Thus in the second year of its existence this government currency became irredeemable on demand.

In 1817 a new issue of £50,000 was authorized, the notes bearing date the 30th April, and being payable on demand in gold or silver after the 31st December, 1817. They were non-interest bearing, fundable quarterly and re-issuable in like manner as the preceding issue. (57 Geo. III., cap. 17.) £10,000 more notes of denominations of £1, £2, and £5 were authorized in

1819. Loan offices, under the direction of commissioners, were established at Annapolis, Halifax and Kings, for loaning in amounts of not more than £200 to each borrower, the notes upon real estate security at the interest of 6 per cent. Repayment of one third of the principal was to be exacted at the end of three, six and nine years after the 31st December, 1819. Loans were made only upon unencumbered estates of treble the value of the sums secured. Provision for funding the notes at six per cent., after 1822, and cancelling all thus retired, was included in the statute. Notes unpaid or unfunded after the 31st December, 1820, were made payable on demand in gold and silver, and thereafter not re-issuable.

The next year (1820) an issue of £20,000 more was authorized, the notes being payable the 31st December, 1822. At the same time the total circulation was limited to £70,000. (60 Geo. III., cap. 18.) During the session of 1820-21, the circulation was further limited to £66,227 in notes for five shillings, ten shillings, £1, £2, and £5. The notes bore no interest, were to be dated on the first Monday in January or July, according to the half year in which they were issued, were re-issuable and payable on demand in specie after three years from the day of date. The Treasury being then unable to pay it in gold and silver, was empowered, as usual, to fund the notes with certificates at 6 per cent. (1 and 2 Geo. IV., cap. 4.) In 1826, new commissioners were appointed to issue some £40,000 of Treasury notes and to cancel the old ones in circulation. These were also re-issuable, receivable for public dues, and fundable after three years. But the notes were now made payable in payment of warrants upon the Treasury, *whenever the Treasury should not have the needful gold and silver*. The payee being deprived of his election between specie and Treasury notes, the notes, therefore, became a legal tender in discharge of Government debts. (7 Geo. IV., cap. 14.) Two years later the Provincial Treasurer was directed to apply what gold and silver should come into his hands exclusively to the payment of the funded debt. In 1829 the limit of the circulation fixed at £40,000 in the preceding year was raised to £55,000, and in 1832 to £80,000. (9 Geo. IV., cap. 3; 10 Geo. IV., cap. 43; 2 Wm. IV., cap. 64.)

The next year the defective state of the currency and the desire to provide for its specie redemption led the Legislature to enact that the payment of customs duties should be in gold and silver alone. The Treasurer was instructed, whenever he had the specie, to pay treasury notes in sums of £10, upon presentation; when notes in sums of £100 or over were presented for payment, and sufficient gold or silver were lacking, the holder was entitled to receive interest bearing certificates for like amounts. When the Treasurer lacked both specie and notes, the commissioners provided for the payment of Government dues, certificates of funded debt which bore interest at 4 per cent., and were limited to an outstanding total of £20,000. The commissioners might issue new notes for amounts equal to those retired by certificates, and these new notes were payable in discharge of warrants upon the Treasury. (3 Wm. IV., cap. 38.)

According to an Act of 1834, the notes were received for customs duties at the rate of 16s. cy. per £ stg. (4 Wm. IV., cap. 1.) In 1835 the interest on certificates by which the notes were funded was reduced by statute from six to five per cent., while the interest on £11,500 of the certificates of funded debt, issued under the Act of 1833, was raised to five per cent. The Legislature further provided for funding the notes, prohibited the re-issue of notes funded, and limited the amount of certificates issued under the Act and outstanding to £18,500, while pledging the payment of the whole sum by the 1st January, 1838, or as soon as possible thereafter. (5 Wm. IV., cap. 22.) The province was still liable in 1846 for some £30,000 upon certificates, a large amount of Treasury notes were outstanding, and the Government owed £27,000 to the Savings Bank at Halifax. The former laws relating to Treasury notes were repealed, and the substitution of a new issue for the notes in circulation authorized. But according to the new statute, the notes were still payable to holders of warrants upon the Treasury, if there should be no gold or silver available. They might be re-issued. The amount in circulation was limited to its then figure. Notes were receivable at the Treasury, and by Collectors of imposts and light duties at their par value. Customs duties were payable in gold, silver and Treasury notes only. (9 Vic., cap. 14.) This, apparently, was discrimination against bank notes. The banks, indeed, already suffered somewhat by the partiality of the Legislature for Treasury notes, for they were prohibited by an Act of 1834 (4 Wm. IV., cap. 24), from issuing notes for less than £5 currency.

Under the law of 1846, notes were issued down to the time of Confederation. Assistance granted to railways in 1854 was the excuse for an addition of £50,000 in notes of 20 shillings, to the £100,000 currency, or thereabouts, already in circulation. (17 Vic., cap. 3.) These, like the issue of 1846, were nominally payable on demand in gold or silver. The form of the note was as follows :—

One Pound. £1 One Pound.

Province of Nova Scotia.—The bearer hereof is entitled to receive at the Treasury, Twenty Shillings.

Dated at Halifax the..........day of........ 18....

.... } *Commissioners.* ....*Treasurer.*
....

But practically the Treasury notes of Nova Scotia were irredeemable; large sums could not be converted into specie at the option of the holder; nor could they, for example, be safely used by banks as a part of their reserves.[1] The only transactions in which, so far as I can discover, they were legal tender, was in payment of warrants upon the Treasury, when there was insufficient gold or silver to meet the debts of the Government. A qualified redemption was kept up by the possibility of using the notes at their par value in payment to the Government; but this did not suffice at all times to prevent a depreciation. The indebtedness of the Province upon this paper was assumed by the Dominion of Canada in 1867. The amount was then $605,859 12. Redemption was so rapid during the next five years that by 1872 only $61,685 were still outstanding, and by 1890, $39,743. (Public Accounts, Canada, 1890, p. 38.)

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[1] Journal of the House of Commons, Canada, 1869, Appendix I, p. 46, Evidence of MESSRS. LEWIN and ROWLEY.

CHAPTER VII

BANKING REFORMS 1867-1871

§ 36.—PRELIMINARY MEASURES

By the British North America Act of 1867, the Parliament of Canada was given exclusive legislative authority in all matters coming within the subjects of currency and coinage, banking, incorporation of banks and the issue of paper money, savings banks, bills of exchange and promissory notes, interest and legal tender.[1]

"An Act respecting Banks" (31 Vic., cap. 2), was the earliest statute enacted under these powers which concerns the present study. This was merely a temporary measure, the expiry of which was fixed for the end of the first session of Parliament, after the 1st January, 1870. Yet some interest attaches to it as an early indication of the force with which Canadian precedents influenced the legislators of the Dominion. It first extended the powers of banks previously incorporated by any of the Provinces to the territory of the whole Dominion. Banks in Nova Scotia and New Brunswick were subjected to the tax of one per cent. upon the excess of their average circulation, above the average weekly amount of coin and bullion kept in their vaults, and reported, with other items, semi-annually to the Dominion Government. The remainder of the law is practically a re-enactment for the Dominion of Canada of the general legislation upon banks previously in force in the province of the same name. Banks were empowered to hold and dispose of mortgages taken as additional security for debts transacted in the usual course of their business, to purchase and hold lands thus mortgaged to them, to bid in lands as auctioned at their suit, acquire absolute title therein, to act on power of sale, etc., etc.

The Dominion Parliament also adopted the law as to loans on warehouse receipts, described in the last chapter but one. The period for which the banks might hold the commodities described by the instrument was limited to six months, except in the case of timber, when a twelve months' holding was allowed. Section 9 of the Act provided for the case where the warehouseman and the borrower were one and the same person; section 10 declared that advances granted by banks upon the security of warehouse receipts, bills of lading, specifications of timber, and the like should have priority over claims of the unpaid vendors. Both these features had been added to the Province of Canada statute in 1861, the first because the courts had decided that the warehouseman, etc., must be the bailee and not the owner of the goods; the second, in order to make the law certain, as the unpaid vendor previously had the prior lien in some cases.[1] All banks were exempted from penalties for usury, but were not permitted to recover at law any higher rate than 7 per cent. Graduated charges for the expenses of agency and collection, not to exceed one-half per cent. for ninety day paper, were permitted to banks discounting notes payable at some office of their own, other than the place of discount. The usual charge of one-half per cent. in addition to the regular rate of discount, was permitted when the note should be payable at any other place and not at a branch of the same bank.

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[1] Imperial Statutes, 30 and 31 V., cap. 33, section 91, clauses 14 to 16, 18 to 20 inclusive.

A second re-enactment of Canadian legislation occurred in 1868: "An Act to enable Banks in any part of Canada to issue notes of the Dominion instead of issuing notes of their own." (31 Vic., cap. 46.) It was the Provincial Note Act of 1866, phrased in the same general terms, extending the same general offers. But aside from its fiscal object, it was manifestly intended merely to continue the arrangements with the single bank which already had charge of the Government issue under such an agreement that, even had they wished, it would have been impossible for other banks to take advantage of the Government's ostensible offer.[2] The eight millions of Province of Canada notes prepared in 1866, and the five millions thereof in circulation in 1868, were declared to be Dominion notes, for which the Dominion alone should be responsible. It was also provided that the Governor might, in his discretion, establish branches of the Receiver-General's department in Montreal, Toronto, Halifax and St. John for the issue and redemption of Dominion notes, or might make arrangements therefor with any chartered bank or banks, and allow for such services a commission of not more than one-quarter of one per cent. for every three months upon the average amount of notes in circulation during that period. Owing to the difference of currencies, notes made payable in Halifax were legal tender in Nova Scotia only, and at the rate of $5 per pound sterling.

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[1] The whole development is fully treated by Z. A. LASH, "Warehouse Receipts, Bills of Lading, and Securities under Sec. 74 of the Bank Act," *Journal of the Canadian Bankers' Association*, Vol. II., p. 54. The work first came to my notice after this and the subsequent references were written.

[2] Journal of the House of Commons, Canada, 1870, Appendix 2, p. 5, A Letter of Sir Francis Hincks, Minister of Finance, to R. B. Angus, Esq., General Manager of the Bank of Montreal, 14th February, 1870.

In 1869 their charters being about to expire, the Parliament continued till the end of the first session of Parliament, after the 1st January, 1870, the corporate existence of the Quebec Bank, City Bank, Banque du Peuple, Bank of Toronto, Ontario Bank, Bank of Brantford, Canadian Bank of Commerce, Royal Canadian Bank, La Banque Nationale, the Gore Bank and Niagara District Bank.

§ 37.—THE QUESTION OF BANKING REFORM

By the measures of 1867-69, time was gained to consider the great problem of assimilating the currency and banking systems of the several provinces, and of creating out of the diversity one general, uniform system for the whole country. Upon the day that Confederation became a fact, there were eighteen banks carrying on business in Ontario and Quebec, under charters granted by the Province of Canada, five working under Nova Scotia charters, and four under Acts passed by New Brunswick.[1] The Bank of British North America, acting under its Royal charter, operated in all the Provinces, but it also was to be subject to such Dominion legislation as did not interfere with the single liability of its shareholders, and a few other peculiar features of its constitution. Of charters granted, not yet forfeited for non-user, and still available for future operations, there were in Canada three, in Nova Scotia one, in New Brunswick five.[2] If the interested banks were to continue their business, the renewal of seventeen of these charters would become necessary before the 1st July, 1871.

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[1] See Note 1, next page.

But the problem confronting Parliament, and interesting people, was more than the renewal of certain bank charters. In the case of new banks, it was more than the passing of certain private Acts, framed on the lines which hitherto had been followed in the several Provinces. It was more, indeed, than the amendment of charters in such manner and details as experience might have suggested. The creation of the Confederation and the establishment of a united Parliament marked the close of one period of Canadian history. Acts and decisions immediately subsequent, and the earlier legislation passed by authority of the British North America Act, became, to a

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[1] ONTARIO AND QUEBEC	Capital Paid-up
Bank of Montreal	$6,000,000
Quebec Bank	1,476,250
Commercial Bank of Canada	4,000,000
City Bank	1,200,000
Gore Bank	809,280
Bank of British North America	4,866,666
Banque du Peuple	1,600,000
Niagara District Bank	279,376
Molsons' Bank	1,000,000
Bank of Toronto	800,000
Ontario Bank	1,999,100
Eastern Townships Bank	375,386
Banque Nationale	1,000,000
Banque Jacques Cartier	953,135
Merchants' Bank of Canada	941,182
Royal Canadian Bank	806,626
Union Bank of Lower Canada	748,865
Mechanics' Bank	227,725
Bank of Commerce	384,181
	$29,467,773
NOVA SCOTIA	
Bank of Yarmouth	$128,600
Merchants' Bank	64,000
People's Bank	399,789
Union Bank	400,000
Bank of Nova Scotia	560,000
	$1,552,389
NEW BRUNSWICK	
Bank of New Brunswick	$600,000
Commercial Bank of New Brunswick	600,000
St. Stephen's Bank	200,000
People's Bank	80,000
	$1,480,000

[2] These were, in Canada, the charters of the Bank of Northumberland, the Bank of London and the Bank of Simcoe; in Nova Scotia, the Commercial Bank of Windsor; in New Brunswick, the Albert Bank, the Woodstock Bank, the Merchants' Bank of New Brunswick, the Northern Bank and the Eastern Bank of New Brunswick. *Vide supra*, Chapters V. and VI.

great extent, precedents for guidance of the future. No stronger example could be adduced than the statutes with respect to banks. The question, therefore, as it appeared to the first Parliament of the Dominion, was serious, difficult, momentous. Upon their decision depended not only the temporary continuance of the banks, and the security of the public's claims, but also the permanent efficiency of the system, the later policy of the Government and the future development of bank legislation.

The discussion by people and press had been stimulated by the failure of the great Commercial Bank, and the financial crisis that followed in October, 1867. We are already familiar with the result of the meeting of representatives from the various banks held upon the 21st of that month, with the hope of arranging for some plan to assist the Commercial Bank and prevent its failure. The official account of this meeting was published upon the 28th.[1] But it did not disarm popular and newspaper criticism of the Government's fiscal policy. The Hon. A. T. Galt, Minister of Finance for the Dominion, became convinced that public opinion in Ontario to some extent held him responsible for the loss which had been suffered by investors in the Commercial Bank; he felt that his usefulness was marred, and that he could not expect the same support from representatives of Ontario that he had previously been accorded.[2] On the 7th November, 1867, he resigned his seat in the Privy Council.

On the 15th November appeared explanations which the Board of the Bank of Montreal had embodied in resolutions adopted the 4th.[3] The directors, apparently, had felt constrained to publish them with some hope of mollifying the hostility to their bank, which the events of the autumn had only served to increase among the people of Ontario. The original cause of the unpopularity, no doubt, was the restrictive policy followed in Canada West after 1862-3, at the instance of the extraordinarily able man then at the head of the bank, Mr. E. H. King. The western business was regarded as thoroughly unsound, being based on accommodation paper. Mr. King had no reverence for "names" upon securities offered for discount; he resolved to bring the business down to a solid basis. And so he did, although at the cost of more than a million dollars, written off between 1863 and 1866, by the Bank of Montreal on account of bad and doubtful debts in Upper Canada. Canada West also suffered by the process, and much of its loanable capital, accumulated as deposits in the Bank of Montreal, was drained away from the producers of the Province either to supply the importing merchants of Montreal, or to be sent to New York, there to serve the bank's exchange and gold speculations in Wall Street.[1]

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[1] Toronto *Globe*, 28th October, 1867.

[2] Ottawa *Times*, 8th November, 1867.

[3] Most of these explanations, to be sure, were denied by the President of the City Bank, Mr. William Workman, in a letter published in the Toronto *Globe* of the 14th November, just as the Ministerial explanations were criticised and riddled on their appearance. The sources for an account of the Commercial failure and the action of the banks and the Government in regard to it, are more contradictory than the evidence in a case at admiralty law. Their further consideration would be interesting doubtless, but not particularly advantageous.

In spite of these facts, the influence and power of the bank were relatively enormous. Two of its great competitors, the Commercial Bank and the Bank of Upper Canada, had fallen victims to the stress of events and their own mismanagement. The Bank of Montreal had nearly a fourth of the total paid-up banking capital in Ontario and Quebec; its assets were 19/72 of a like total, over a fourth; and its liabilities by circulation, deposits, etc., were nearly a third of the $39,000,000 owed by all the banks. By adding to these, the facts that the bank was the Government's depositary and fiscal agent, and that it enjoyed peculiar advantages as the sole issuer of provincial notes, one has ample explanation of the remarkable prestige enjoyed by the Bank of Montreal and its leading officers.

Now, at the same meeting of the 4th November, the Board had approved a memorandum of a proposed system of banking submitted by the General Manager, E. H. King. "The General Manager," it ran, "believes that the interests of the country will be best served by the diffusion of banking interests in different localities, leaving to the greater banks, in large measure, the care of the mercantile and foreign trade of the country, and to the lesser in their own districts the care and support of local enterprise. He sees no reason why there should not be perfect freedom and equality in banking, and why the greater and smaller banks could not exist in harmony, each within its own sphere contributing to the general prosperity."[1] The suggestion of "free banking," given in these words, becomes unmistakeable as the scheme is unfolded. It was to extend the Government's issues; to deprive the banks of their powers of circulation; to allow only the issue of notes prepared by Government, and delivered to banks only after the deposit of Dominion Government bonds, to be held as special security for the circulation; to permit the establishment of local banks with small capital in each county; and to provide for elasticity of the currency, by means of maximum deposits of bonds as note security, and by the periodical movement of currency from east to west, as in the United States.

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[1] *The Shareholder*, Montreal, 5th September, 1890, Reprint of the article on the Bank of Montreal, Toronto *Globe*, 15th November, 1867.

The author of this scheme was not the only Canadian to be won over to the National Banking System. To bring 1,600 banks and $420,000,000 of banking capital under uniform legislation and to achieve the reforms which the founders of the National System could justly claim, had been no mean task. So far, moreover, the system had worked well. There was a decided attraction in the much vaunted security of the National Bank note, an attraction that often overshadowed the rigidity of such a circulation, and the lack of any daily test of convertibility. Then the pleasant notion that a local bank, founded on local capital, and managed by local magnates, is best able to assist the local interests, had often appeared in Canada as an argument for increasing the number of banks, and received frequent acceptance, particularly among the more needy borrowing classes. Furthermore, the National Banking Law had created a market for nearly $340,000,000 of United States bonds. Free Banking was believed to have increased, in New York, the demand for the State's securities, and thus to have raised the price. Canadian leaders were anxious in every possible way to strengthen the credit of the new Government, and they were inclined to favor any practicable plan for the creation of new financial resources.

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[1] Toronto *Globe*, 15th November, 1867.

The Select Committee of the Senate struck in the session of 1867-68, roundly condemned in their report the Bank of Issue system, started under Mr. Galt, and recommended the return to the system of banking that obtained previous to 1866. Whether they were influenced by the scheme of Mr. King, or converted by the American experience, it is needless now to enquire; as a *pis aller*, however, they did approve of the American plan. It will be best to quote literally the statement of their position. "Your Committee recommend that if the financial requirements of the Dominion should induce the Government to desire the introduction of a new system, including the taking possession of the currency of the country (which your Committee would strongly deprecate), the issue of a paper currency be based upon the deposit with the Government of the public securities of the Dominion under a system analogous to the National Banking System of the United States, but redeemable on demand, the Government regulating the issue under the authority of Parliament; the banks through which the notes are issued being responsible for their instant redemption."[1]

On the 14th April, 1868, the Hon. John Rose, successor to Mr. Galt as Minister of Finance, proposed to the House of Commons the appointment of a Select Committee upon Banking and Currency. It would be the duty of the committee, he said, to inquire into the position and circumstances of all the banks in the Dominion. Mr. Rose himself anticipated that the House would agree upon at least two great fundamental principles, viz., that the amplest security should be given, not only for the circulating medium in common use, but also for the deposits confided for safe keeping. He proceeded then to review the charters in force in the different provinces, and the questions growing out of them. In neither part was his speech distinguished for accuracy as to facts or correctness in theory. But his committee was struck, and the Minister appointed chairman. The Committee then drew up questions covering subjects as follows: the past services of the existing banking system; expediency of issuing Government paper, practicability and advantages of introducing a system of banks issuing currency based on deposits of Government securities analogous to the American system; the practice and business of the Canadian banks; the defects of the Canadian system, and the means of improvement. Among others, eleven high bank officials, including one president and ten cashiers, three eminent public men, three boards of trade, and five capitalists and leading business men, replied to the questions submitted by the committee. The testimony was by no means unanimous, but the weight of it was no wise in favor of the system of specially secured bank issues, for the introduction of which events proved the Committee to have been barely more than a cloak.

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[1] Journal of the Senate, Canada, 1867-8, Appendix I.

We need no more than mention the faults they found with the plan of Government issues suggested by the questions: the temptation to extravagant expenditure arising from such sudden and easy sources of financial aid; the principle that the Government should borrow in the open market at fixed times of maturity, for which provision could be made without disturbance; the fact that every existing Government currency was then at a discount; the absence of any sympathy between the demand for currency and a bureaucratic source of supply, Government issues being ordinarily emitted in payment for public works, or, perhaps, the current expenses of the state, rather than in provision for exchanges about to occur; the fact that Government issues are not subjected to the regular redemption made necessary for bank notes by the daily repayment of loans, the accumulation of deposits, and the competition of the issuers; that the convertibility of the Government issue is protected by no regular replenishment of the reserves or constant liquefaction of the assets of the issuer, as in the case of bank notes; and that, finally, to abolish the bank circulation would lead to a great contraction of discounts.

§ 38.—THE CASE AGAINST BANK CIRCULATION SECURED BY PLEDGE OF BONDS

In their criticism of existing charters, the bankers were even more explicit and full than when testifying to the Senate Committee of the previous session, but this was constructive criticism, to follow which would have been to better Canadian banking law.[1] Against the implied proposals of the Committee, on the other hand, they objected that the system of banking and currency there suggested was costly, rigid, comparatively inefficient and calculated to diminish rather than increase the loanable funds ordinarily at the disposal of the commerce and industry of the country. The question now was not one of bank extension, and the creation of local facilities, nor did it turn particularly upon the functions and prerogatives of Government. So it was necessary to urge the more strictly economic objections against "free banking," and that possibility of a further increase of Government paper which the question also implied.

As an economic question it was of the highest significance. In their business of issuing notes, receiving and employing the spare funds of the people, discounting commercial paper and bills of exchange, and making miscellaneous advances, the banks were in close relations with nearly all classes of the producing, trading, and lending communities which then made up Canada. The loanable funds of the banks were derived from their capital, deposits and circulation. To force the banks to furnish bond security for the notes previously issued upon their general credit, would be to close one of the sources of supply, and by consequence to diminish the amount of capital employed in furthering commercial enterprise. For in order to get the bonds, value of some sort must be given—and the portion available for loans, either of capital or deposits, would inevitably be lessened, even though circulation remained at the same height. Bank profits, probably, after paying the first cost of adjustment to the new conditions, would not materially suffer. The rate of discount would rise sufficiently to recoup the loss of working in less favorable circumstances. But the financial interests of the country, the shipping and the railways, the commerce, domestic and foreign, the industries of the farms, factories, fisheries, forests and mines, were too closely and strongly connected with the banks, too dependent upon them, to be unaffected by the conversion of eight to ten millions of dollars of active banking capital into Government debt.

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[1] The following are the chief improvements suggested by the bankers, the list being compiled, for the most part, from the replies of MESSRS. CARTWRIGHT, HAGUE, LEWIN and STEVENSON; the replies of any one witness, of course, never comprising the whole list.

(*a*) To establish a minimum capital to be required from newly chartered banks, and to limit the number of branches in proportion to the paid-up capital stock.

(*b*) To prevent the beginning of business until a certain part of the capital stock is paid up, held in specie, and the fact certified to by a Government officer.

(*c*) To make the double liability available in case of need within a reasonable period, *e.g.*, by assessment of shareholders for the deficiency at the end of say six months after suspension, and by provision that the subsequent proceeds form the dividend of the shareholders, rather than the creditors.

(*d*) To make transfers within three months of the suspension, and at any time thereafter, void.

(*e*) To require such statements of accounts as would check illegitimate operations.

(*f*) To prohibit any but moderate dividends till a reserve fund should be accumulated, such to be made good if impaired.

(*g*) To make the circulation a first charge upon the assets of an insolvent bank.

(*h*) To prohibit the issue of notes for less than four dollars.

(*i*) To require a certain proportion of demand liabilities to be held in specie, say twenty per cent.

(*j*) To limit the circulation to paid up capital stock and Government securities, and provide that any excess should be covered by specie in hand over and above the amount required to fulfil the previous recommendations.

(*k*) To require each half year the publication of a certified list of the shareholders.

(*l*) To prohibit the reduction of capital stock, and to compel the stock-holders to make good the capital if it should be impaired.—*Vide* Journal of the House of Commons, Canada, 1869, Appendix I.

So far as men could foresee, the change was altogether likely to produce a commercial stringency, and the mercantile failures that follow a great and swift contraction of credit. A complete recovery would scarcely be possible. From the trade and the development of the country there would have been withdrawn a part of the accustomed measure of bank accommodation. Should the change be gradual, a positive diminution of banking funds might not occur, *e.g.*, should the completion of the change be delayed till capital stock plus deposits should equal the total (in 1868) of capital stock plus deposits plus circulation. The pressure in this case would be more slowly applied, and never so great at a given instance; but during the period of transition, the business of the country would be deprived of all benefits from that increase of accumulation which is a feature of any progressive national economy. Increasing bank capital during such a period would not make up the deficiency. The moneys available for the purpose, it was argued, were already help by the banks as deposits. To take from deposits to add to capital stock would hardly improve the financial situation.[1]

Under the system of issue against special security, less attention is apt to be paid to the safeguard of requiring a large paid-up capital from each bank within the Legislature's jurisdiction. The tendency is to permit the establishment of small companies, who often lack the means to extend their business beyond the locality of their principal office, and frequently have no wish to do so. By the original free banking legislation, branches were forbidden. Less stable, more dependent upon the prosperity of the single district whence comes their support, less ably managed, because the salaries paid by a great bank would be ruinous to a small one, the little local banks are more likely to suspend their payments, and more likely to become insolvent in times of difficulty, than larger, stronger institutions. Americans need but recall the crisis of 1893 to find the statement of the Canadian bankers confirmed. The risk from loose banking is merely shifted from note holders to the depositors and other creditors; it is not avoided. Then, too, the Canadian Government would be liable under the proposed system to redeem the notes of failed banks, by no means a frivolous obligation when the needs arising from a crisis should drive in the notes to be exchanged for gold, and the call for ready money was breaking the market even for the Government securities held against the bank circulation.

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[1] *Vide Monetary Times and Insurance Chronicle*, Vol. 2, p. 614, Resolutions adopted at a meeting of bankers, held in the Merchants Bank of Canada, on the 17th April, 1869.

A stronger argument than the insufficient guarantee for the immediate convertibility of bond-based bank notes and Government issues, was the lack of elasticity in such systems of currency. This objection, presented by the bankers and others with especial force in 1869, has since been emphatically proven by the experience of the United States during the last two decades with National Bank notes. The tendency of him who issues bond secured notes is to invest only so much of his capital in bonds as will, with his capital otherwise invested, bring in the maximum profit on the whole amount. The motive, therefore, to the issue or retirement of notes is only remotely governed by the number and amount of payments to be effected by this medium of exchange. On the contrary, the motive is *directly* dependent upon the rate of interest borne upon bonds receivable on deposit—a rate determined by the Government, and in large measure arbitrarily determined.

For the automatic expansion of a currency issued upon the general credit of the issuer, the attendant profit, always equal, practically, to the market rate of interest, is an infallible impulse. It is doubly effective, because it permits an increase of his credit, and thereby an added gain to the issuer, which generally could not otherwise be enjoyed. But when the commercial rate of discount is higher than the interest paid on the Government debt, the banker has no inducement to divert his capital to the purchase of bonds to exchange for notes. Nor will he have until the supply of loans shall have been so increased by proffers of capital and the loanable credit which is based upon capital, and utilized, *e.g.*, by the creation of deposits, that the rate of discount falls to a point equal at most to the interest borne by the bonds. This contingency has seldom happened where a Government is solvent and in good credit. The consequence is, as in New York and the United States, that the bankers working under free banking laws retire almost as many notes as the law will permit, in order more profitably to use the capital by which they were secured. Expansion of the bank note currency then occurs only in circumstances of peculiar stringency, when, as in 1893, a money famine forces the banks to use every available device for increasing the currency, though not so much for profit as to oblige their customers.

With the currency system reorganized on the American plan, there would be no satisfactory provision for the periodical expansion and contraction, the causes of which were conveniently summarized as "moving the crops." Mr. King, to be sure, relied upon a regular movement of money from East to West and back again, such as occurs each year in the United States. But this plan concentrates large sums in the financial centres at one time, and stimulates speculation, only to draw them off at another, and tighten money. The process is costly, and highly artificial. It cannot be used without considerable friction. The tasks of moving the crops and meeting other periodical demands of the community for increased currency and credit, *e.g.*, for marketing the wool clip, paying import duties, negotiating the lumber cut, buying the cargoes of the fishing fleet, paying dividends, etc., were not those which would employ through the whole year the funds of the banks who undertook the work. In each of the provinces the demands caused by the harvest and the fall trade were the greatest, and the circulation highest, in October, November or December. The difference between the highest and lowest amount of notes outstanding at any time during the year, was from twenty to fifty per cent. of the minimum.

The ability of the banks to meet these brief but periodical and heavy demands was derived from the elastic qualities of the form of credit in which the advances to lumbermen, farmers, produce buyers and the like were made. Deprived, however, of the advantages arising from an expansion of their circulation, the banks would have slight inducement to provide for a business active during only three months of the year. That they should, for this purpose, be content to receive during eight or nine months the meagre rate of interest paid by Government on an amount of capital equal to this expansion and invested in bonds, was not to be expected. Yet this was the essence of the proposed provision for elasticity by deposit of government securities to cover the maximum circulation. The banks would find more attractive investments in the commercial paper of manufacturers and importers engaged in a steady business, and usually requiring money throughout the year. The larger banks might still have the money for moving the crops, in the heavy reserve funds kept in London and New York, but they were unlikely to withdraw these sums unless moving the crops were more profitable than loaning at call in New York or London. During the autumn of 1868, gold was worth 1/16 to 1 per cent., per diem, in New York.[1] The substitution of a bond-based for a credit currency, and the forced retirement of the latter necessarily involved comparative rigidity and lessening of discount accommodation. For the farmers and those dependent upon them, the most important class, numerically at least, in the whole community, these results meant scarcity of money during harvest time, reduced prices for cereals and other products, and serious annual injury.

In yet another way were the interests of the farming community opposed to the introduction of the American system. Upon this point I prefer to quote the admirable discussion by

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[1] *Ibid*, reply of MR. JAMES STEVENSON to question 9.

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Mr. George Hague: "The question of bank circulation is essentially a question for the agricultural districts, and the small towns and villages which derive their existence and support from them. Withdrawing bank circulation or covering it with Government securities, would be felt far more severely in such districts than in commercial centres. There is no considerable volume of circulation in large towns and cities, either in Canada or anywhere else; business being transacted mostly in cheques, and the system of depositing in banks being almost universal, very little interruption would be caused to business there by the withdrawment of circulation, except by reaction from the smaller towns. But in the country districts bank circulation is a matter of vital importance, for the banking facilities which are essential to their development are largely derived from it. In case of an alteration of the currency laws, there can scarcely be a doubt that the loans of the banks in country towns would be largely cut down. Many agencies would become so unprofitable under this process that they would be discontinued altogether, and all of them would be injuriously affected."[1]

§ 39.—MR. ROSE'S BANKING SCHEME

It would be hard to estimate in what measure the Minister of Finance was influenced by the evidence obtained through his Committee. The characteristic points of the currency and banking resolutions, which he presented to the House of Commons on the 14th May, 1869, were decided upon, it is highly probable, before the original Committee was struck. The resolutions had been prepared under the supervision of Mr. E. H. King, and as in the memorandum approved by his Board of Directors a year and a half before, the leading feature was the reconstruction of Dominion bank law upon the model of the "National Bank Act" of the United States.[2]

The Government proposed to leave the banks alone until the 1st July, 1871, but after that (*a*) to oblige them gradually to reduce their unsecured circulation by 20 per cent. a year, until the whole should be retired; (*b*) to permit the banks to issue instead, up to the amount of their capital stock paid in, notes of uniform appearance, furnished by the Government, and bearing on their face the statement of their being secured by the deposit of Dominion securities; these notes were to be procurable by the deposit of gold or Dominion notes with the Government, whose officers were, in return, to furnish the bank with notes to an equal amount, and to hold against them securities issued for the purpose, and bearing interest for ten years after the 1st July, 1871; (*c*) to make the secured notes, so long as they were redeemed in specie, legal tender throughout the Dominion, except at the office of the issuing bank, and a redemption office to be established and kept at Montreal, or the capital city of the province in which the bank should be situate; (*d*) to require the banks to hold reserves of specie equal to 20 per cent. of the secured notes in circulation, and one-seventh of the deposits at call; (*e*) to make the notes the first charge upon the assets of the bank in case of insolvency. the deposits at call and not bearing interest, the second charge; (*f*) to impose upon the banks a variety of safeguards and restrictions similar to those already in force, and to others recommended by the bankers; to prohibit note issue, except by incorporated banks and the Government, to grant no new charter, and to renew no old one except upon the conditions set forth in the resolutions.[1]

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[1] *Ibid*, Reply to question 2.

[2] Letter of Mr. George Hague, Montreal *Gazette*, 30th January, 1890.

In the speech introducing his resolutions, Mr. Rose averred that the Government had no hostility towards the banks, and felt that for the important commercial operations essential to the country's prosperity, it was indispensably necessary that the banks should be prosperous. The Government, he said, had no especial object of its own to gain by the substitution of a system of banking different from that then existing. For the proposals which I have included under group "f," there is neither time nor need to analyze his arguments. These questions must be treated further on. With respect to the proposed changes in the system of note issue, the Minister declared that, "It is the duty of the Government not to interfere with banking proper, but to see that the circulation which the public at large is bound to take, should be placed on as sound and wholesome a footing as possible." Or again, "It is of essential importance to the interests of the country that the circulating medium should be placed on a sound and uniform basis."[1] If the conclusions of Chapter V.,[2] as to the legal and economic character of bank notes, are correct, we cannot accept the Finance Minister's implication that the note issue is not a function of banking in the strictest sense of the term. As to his protest that "the Government has no especial object of its own to gain; the Government is not embarrassed by any pressing wants," it will be well to remember that, by the terms of the British North America Act, the Dominion was obliged to construct the Intercolonial Railway between Quebec and the Maritime Provinces. The twelve millions odd which could have been obtained by requiring the currency of the country to be covered by Government bonds, may or may not have affected the attitude of the Minister of Finance towards the banking system. The reader can judge.

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[1] Hamilton *Spectator*, 17th May, 1869.

Further than that the currency of Canada should be secured and uniform throughout the Provinces, Mr. Rose found little to say. These desiderata were certainly important, and we may acknowledge now that during the next twenty years they would have been more nearly gained under his plan than under the policy that finally prevailed. But they would have been secured at the cost of elasticity and adequacy in the currency, relative shrinkage of discount accommodation, and artificial rise in the average rate of discount. So great a cost can hardly be compared with the few losses caused by the nominally unsecured currency that Canada retained.

Some intimation of the Government's plans had gotten out before the resolutions were presented. On the 17th April, 1869, the banks of Ontario and Quebec adopted resolutions,—"That in any renewal of the charters, it is important for the best interests of the public that no changes of fundamental character be made in the system, and particularly that the note circulation be preserved."[1] On the same day the Halifax banks declared that the system in force in Nova Scotia had proved satisfactory, that any change was neither asked for nor desired. During the session, some seventy-two petitions, either against the resolutions of Mr. Rose, or, "that no changes of a fundamental character be made in the present system of banking," or, "that the circulation of the banks may be preserved on substantially the present basis," were presented to the House of Commons. Of these petitions, some ten, to be sure, came from the banks; the others were from the leading towns, cities, boards of trade, and the like, throughout the Dominion, and respectable as well for the number of signatures as for the character and influence of the signers.

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[1] Ottawa *Times*, 15th May, 1869.

[2] *Vide* Note at end of Chapter V.

On the 1st June, the resolutions came up for consideration. Mr. Holton believed that such radical changes in the long-established banking system of the country should not be made without mature deliberation in Parliament and in the country. He immediately moved, in amendment, to postpone the consideration of the resolutions until the next session.[2] The debate that followed was acrimonious, able and suggestive. Mr. Mackenzie seconded the motion, and bore witness to the nearly unanimous opposition of the press to Mr. Rose's policy. As a whole, the scheme had been universally condemned.[3] Mr. Cartwright conceded the few tolerable arguments that the Government had urged, and thus conceded all they were to urge, for in his first speech Mr. Rose quite exhausted his arsenal. But, Mr. Cartwright objected, the plan involved a radical change. If the Government should issue new securities to cover the notes, the loan was practically compulsory. The measure would especially affect Ontario, where the annual expansion of the currency and the need for it were the greatest. The proposal utterly wanted provision for elasticity. Mr. Rose had miscalculated the amount necessary, after his plan became law, to restore the banks to their previous position. In Ontario, alone, it would need eight or nine millions.[1] Mr. Galt argued that the National Banking System had never been tried by the sufficient test of working on the gold basis. He objected to the plan for maximum deposit of security as unlikely to work, and declared the time unpropitious for so radical a change. Friends of the Government, among them Mr. Tilley, spoke in reply. Debate was continued with spirit until midnight. General and strong opposition to the plan, even by staunch supporters of the Government, was thoroughly and ably manifested.

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[1] *Monetary Times and Insurance Chronicle,* Vol. II., p. 614.

[2] Hamilton *Spectator,* 2nd June, 1869.

[3] Ottawa *Times,* 4th June, 1869.

The next day the resolutions were considered in the Privy Council, and rumors of a cabinet disagreement became current in Ottawa.[2] Certain it is that during the next fortnight, many of the earlier converts lost faith in the banking theories of Mr. Rose. The Government had more important ends than forcing a rejuvenated currency scheme upon the country, approved though it was by their own Finance Minister, by the general manager for their fiscal agents, and even by worthy statesmen in the great republic on their south. They could ill afford to imperil their majority, and they left the banking question undisturbed until the 15th of June. The Minister of Finance then announced to the House of Commons that "the Government would have been glad if there had been a ready acquiescence in the principles involved in the resolutions. But, believing as they still did, that the reforms embodied in them were such as to meet with the general acceptance of the country," the Government was willing temporarily to withdraw their pro-

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[1] In case the plan was carried through, and the banks accepted it, said Mr. Rose, they would need, to cover maximum circulation, as

On the 31st October, 1868....	$15,120,000
20 per cent. of the maximum circulation to be held as specie reserve	3,024,000
1/7 of deposits at call, not bearing interest, to be held as specie reserve	1,968,000
	$20,112,000
Less specie, Dominion notes and Government debentures, already held by the banks..................................	11,785,000
Difference under Mr. Rose's plan	$ 8,327,000

equivalent to 7.05 per cent. upon the highest circulation, for seven years (the period of transition), or 2.03 per cent. upon the highest figure yet reached by the item of discounts (Ottawa *Times*, 15th May, 1869.)

Mr Rose, however, omitted all account of the large amounts of unissued notes, which as till money in the hands of branches, were ample and costless substitutions for equal amounts of specie, and yet never appeared in the returns of the "Notes in Circulation." This advantage would have been lost under his scheme, as well as the peculiar benefits derived by country districts from branch banks and the note issue according to the existing system.

[2] Hamilton *Spectator*, 3rd June, 1869.

posals. "In the next session of Parliament the Government would again bring before the House the consideration of these resolutions."[1]

Two and a half months later, the Hon. John Rose had resigned the Ministry of Finance. Upon his departure from the Government, the defeat already inflicted on the dangerous banking policy which he advanced, became certain and, in great measure, permanent.

§ 40.—THE BANKING POLICY OF SIR FRANCIS HINCKS

Neither the precedents of Mr. Galt nor the plans of Mr. Rose were followed by the next Minister of Finance. Sir Francis Hincks, having spent the preceding fifteen years as a Crown Governor in the British Colonial service, was now returned to Dominion politics, and had accepted a seat in the Cabinet. Sir Francis resolved to consult the banking experts before he prepared his proposals for a general Dominion Bank Act. In the conferences which were held the bankers found opportunity to express their views directly to the Government.[2]

What, probably, was the attitude of the bankers towards the question in 1870? They believed, presumably, that good banks were conducive to the general well-being of the country, that upon this well-being their own prosperity was largely dependent. The natural and preferable view is that the principal object of the bankers was to secure the revision of banking law best calculated to promote the soundness, security and efficiency of the banking system. Whatever their ultimate purposes in 1859, 1868 and 1869, it was not the advantages which they might themselves enjoy under carelessly constructed legislation that appeared to determine the proposals for reform submitted by the several banks. It was the desire for restrictions upon loose, unsound and illegitimate practice by their rivals and competitors. The same remark is true for 1880 and 1890. One may conclude, therefore, that had their ends in 1869-71 been purely selfish, the practical action of the bankers would have been no different from what might have been expected according to our other view of their motives. We should have had then an apt Canadian example for Adam Smith's observation of man's strife for personal gain: "By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it."[1]

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[1] Hamilton *Spectator*, 16th June, 1869.

[2] I am informed by the Department of Finance that of these meetings no minutes were kept. From the student's point of view, the lack of such records is most unfortunate. They would, no doubt, have filled many volumes; a vast amount of contemporary evidence upon that stage of Canadian banking would have been preserved, and much light thrown upon the real position both of the bankers and of the Government.

The policy of the Government was indicated in the speech with which the Governor-General opened Parliament, the 16th February, 1870: "A measure intended to secure safety to the community, without interfering with the legitimate operations of the banks, will be submitted for your consideration, and will, I trust, be found calculated to place these important interests upon a sound and stable basis"[2] On the 1st March, Sir Francis Hincks brought down to the House of Commons his Resolutions on Banking and Currency.[3] In the speech introducing his measures the Minister of Finance emphasized the need of adopting a general and uniform banking law for the whole Dominion, a need rendered the more imperative by the charters about to expire, and the petitions then before Parliament for new incorporations. The safeguards about the currency were different in the different Provinces, and the limitations upon issue different. Experience taught that the note holders should have greater security. Yet the people were used to the credit accommodation based upon the note issue, there being not less than eight or nine million dollars of such loans in Ontario and Quebec alone. Owing to the necessity, under the American system, to withdraw this accommodation, it was not expedient to have the currency covered by deposit of Government securities. Public opinion, said Sir Francis, was against a Government Bank of Issue, and he disclaimed any plan of that character. He deprecated appeals to sectional feeling.

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[1] *Wealth of Nations*, Bk. IV., Chap. ii.

[2] Parliamentary Debates, Canada, Vol. I., p. 27. This is the first of the two volumes of reports published as a private undertaking before the official series began, and ordinarily known as "Cotton Debates."

[3] The resolutions are to be found in the Canadian newspapers of the 2nd March, 1870, and in the report of the Debates for the previous day.

And that they might be brought to the greatest possible perfection, he urged the House to treat the resolutions in an unpartisan spirit.[1]

The debates in the House turned mostly upon questions of minor detail. It is characteristic of ministerial government that the trenchant and decisive discussions are frequently carried on and concluded in council chambers or departmental offices long before the final measure is submitted to the Legislature. Under Sir Francis Hincks, moreover, the banking policy of the Government had been almost completely reversed within the year. The retention of the bank note issue against general credit, for which the Opposition fought in 1869, was now conceded. Still, the resolutions were in some respects a compromise, and, as a compromise, open to objections.

One of the more important contests occurred over the minimum of capital on which a bank should be permitted to begin and to continue its business. This discussion was stimulated by Sir A. T. Galt, who objected to the original proposal of the Minister to require $1,000,000, of which $200,000 should be paid up before the beginning of business, and twenty per cent. in each year thereafter. Branch banks, he said, were not the best provision for rural districts; in times of pressure the larger banks contract their rural loans to meet urban drains. Others said that managers of local banks are more interested in the welfare of the surrounding country, and know more of rural necessities. Local banks, they thought, better serve the country. Rural districts cannot raise the larger capital, and have no business which requires it.[2] To permit the existing small banks to go on, and not to provide for new ones, was to perpetuate an objectionable anomaly.[3]

Sir Francis replied that it was necessary, under the system of note issue adopted, to provide the security of a large paid-up capital. Any person desiring to invest in banks would have no difficulty in obtaining shares in some of the established banks. "There was no difficulty in establishing agencies in all places where agencies should be established. His impression was that both in the United States and in this country, where you found in any district a demand for small banks with small capital, the truth was the people who wanted it were borrowers and not lenders. * * * * * Existing banks could get their charters renewed without increasing their capital."[1] Small banks, he concluded, were always looked upon with a certain amount of suspicion. But in the Maritime Provinces, local banking was in more general favor and better established than in Ontario and Quebec. Chiefly to meet their needs, Sir Francis Hincks conceded the reduction of the minimum authorized capital to $500,000, the payment of 40 per cent. of which was required before the corporation should begin business.

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[1] This condensed *exposé* of the Minister's principal motives is collated from his introductory speech, and the remarks afterwards made by him in the course of the debate.

[2] Debates *ut supra*, pp. 265, 267, 311, MESSRS. GALT, COLBY and PICKARD.

[3] *Ibid*, MESSRS. MACKENZIE and CARTWRIGHT.

The clause of the resolutions limiting the total liabilities of any bank to thrice the paid-up capital stock, plus its specie and Government debentures, was withdrawn. It was not the same restriction upon the debts of a bank which appears in the Province of Canada charters and the circulars from Downing Street, for, according to that, deposits with the bank were expressly excluded from the reckoning. The sole effect, had it been retained, would have been to prevent a large accumulation of deposits in one bank. Depositors are influenced by the bank's reputation; to limit the amount of deposits would have been to impair the motive to enhance that reputation by careful management.

When he first took up the question, Sir Francis Hincks believed that the banks should be required to hold as minimum reserves an amount of specie equal to a fixed proportion of their liabilities. But in the conferences with the bankers, the Finance Minister was convinced by the unanimous opinion and strong arguments offered against such a provision. The regulation was omitted from the resolutions, and the omission justified by the principle that a reserve which must not be used is no reserve at all, that if the proportion required were only moderate, the tendency would be to regard that as sufficient, and that all of the immediately available funds of a bank, *e.g.*, the New York and London balances, are not specie.[2]

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[1] *Ibid*, p. 310.

[2] GEORGE HAGUE, "Bank Reserves," *Journal of the Canadian Bankers' Association*, Vol. I., p. 107; Debates, *ut supra*, p. 217.

The scheme to give increased security to the note holders by making its notes a first lien upon a bank's assets in case of insolvency, was also rejected. The bankers had officially suggested it in their resolutions of the 17th April, 1869; they had mentioned it in evidence given to several of the Parliamentary Committees. It was also approved by such publicists as the Hon. R. J. Cartwright and Sir A. T. Galt. Sir Francis Hincks held to the view that through such a provision the stability of the banks would be jeopardized by the tendency of depositors to start runs in order to convert their ordinary claims into privileged liens.

Some objections were made to the plan by which the banks lost the right to issue notes for sums under $4, but the banks deliberately and avowedly surrendered this right for valuable considerations, to wit: abolition of the tax of one per cent. per annum upon their note circulation, and repeal of the requirement to keep one-tenth of actual capital in Dominion securities. For some years, moreover, the bankers had not thought the privilege an unmixed benefit. In times of difficulty the small notes always gave the most trouble. The majority of holders were usually poor, ignorant, or easily alarmed; a run upon a bank once started, they always joined the attack in great numbers, and among them the fear of loss reached its most violent manifestation. The restriction had been frequently urged by bankers themselves as a necessary reform.

The severest struggle of the whole debate occurred on the question suggested by the preceding change, and closely connected with it. Pursuant to his policy of placing all the banks upon the same footing, the Minister, on the 14th February, 1870, notified the Bank of Montreal of the Government's desire to terminate at the end of six months the arrangement made with it for the issue and redemption of provincial notes. The plan of paying for that service by commission was disadvantageous to the Government.[1] Sir Francis now proposed that the Government should assume the issue, as Dominion notes, of the paper currency under $4, and that the banks should be required to hold 50 per cent. of their cash reseves in Dominion legal tenders. He had devised a system of regulating the Dominion note issue different from the one in force.

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[1] He had further freed the Government from the agreement of the 9th November, 1865, by which they were obliged to keep from $400,000 to $500,000 at their credit in the Bank of Montreal without interest, not to retire their account without six months' notice, not to give such notice while the bank was under advances to the Government, and not during the same term to deposit the public moneys elsewhere than in the Bank of Montreal. To Sir Francis Hincks is also due the competition in buying or selling Government exchange, established by the practice of inviting telegraphic tenders from all the banks. Previous to this one bank had enjoyed a scarcely qualified monopoly. *Vide* Journal of the House of Commons, Canada, 1870, Appendix 2, pp. 4, 5 and 10.

The principle of this regulation was that admired and advocated by the Minister, even before it was adopted by Sir Robert Peel in the Bank Act of 1844. He believed that the "functions of the Issue Department should be automatically confined to the exchange of gold for notes, and *vice versa*: that an amount can be established which may, with perfect safety, be issued upon public securities, and all beyond that fixed amount should be held in gold."[1] The practical measures embodying this principle were :

(*a*) The management of the Dominion note circulation directly by the Government ;

(*b*) The establishment of branch offices of the Receiver-General's Department in Montreal, Halifax, St. John and Toronto, for the issue and redemption of notes ;

(*c*) The authorized extension, by Order-in-Council, on report of the Treasury Board, of the issue to $9,000,000, in amounts of not more than $1,000,000 at a time, and at intervals of not less than three months ;

(*d*) The requirement that the Receiver-General should hold specie and Dominion debentures to cover the outstanding circulation ; the debentures to be issued and held for the purposes of the Act, or to be disposed of temporarily or absolutely in order to provide specie for redemption ; the debentures not to exceed 80 per cent. of the circulation ; the specie, as a rule, to be a sum equal to 25 per cent. of the debentures, and never less than 15 per cent.

(*e*) Provision for the issue of any amount required by the public convenience, so long as the excess over $9,000,000 should be covered by equivalent amounts of specie.[2]

The Opposition favored the provision concerning bank reserves as little as they did the plan to augment the legal tender issue. Mr. MacKenzie advocated the policy of non-interference by Government, emphasized the tendency of Government issues to depreciate, and accused Sir Francis of resorting to the proposed increase as a help in concealing the million dollar deficit which Mr. MacKenzie detected in the country's finances.[1] Mr. Cartwright objected to the first proposal, because, first, it tended unduly to diminish the amount of gold reserves which should be held in the country; second, it was a scheme to borrow a large sum of money at call, or at short time; third, it appeared to him to be an expedient of somewhat objectionable morality in a political sense. Others complained that the rule would be simply a means of forcing from the banks a permanent loan equal to half their reserves. Their arguments will be more or less approved according to the reader's point of view.

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[1] *Monetary Times and Insurance Chronicle*, Vol. VII., p. 725, Letter of SIR FRANCIS HINCKS.

[2] Statutes, Canada, 1870, p. 41, 33 Vic., cap. 9, "An Act to amend the Act 31 Vic., cap. 46, and to regulate the issue of Dominion notes."

In any case these measures of the Government must be regarded as a fiscal expedient rather than a banking reform. The Government, without doubt, was obliged to do something with Dominion notes already in circulation. The Minister's plan for regulating the issue was a marked improvement on that adopted by his predecessors. Even had he so wished, he would have scarcely been able to provide the means for redemption of this debt. Furthermore, the banking interests demanded certain privileges, among them, a monopoly of the circulation of the country. Sir Francis felt obliged "to contend in the interests of the public at large, that they were entitled to some share in the profits of the circulation." Though, in the preceding pages, we have not accepted this view of the State's relation to the currency, it must be said, nevertheless, that to many the reserve requirement seemed only a fair price for the concessions granted by the Government to the banks. The regulation was modified slightly while under discussion and finally adopted by Parliament in the following form: "The bank shall always hold, as nearly as may be practicable, one-half of its Cash Reserves in Dominion notes, and the proportion of such reserves held in Dominion notes shall never be less than one-third thereof." (33 Vic., cap. 2, § 5.)

§ 41.—THE "ACT RESPECTING BANKS AND BANKING," 1870

The "Act respecting Banks and Banking," embodying the resolutions prepared by the Minister, was passed by the House of Commons the 5th April, by the Senate upon the 12th, and received the Royal assent the 12th May, 1870. (33 Vic., cap 2.)

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[1] Debates *ut supra*, pp. 256 and 822; *ibid*, p. 504.

It provided that in any Act establishing a new bank, or renewing the charter of any existing bank, the following restrictions should be incorporated, certain exceptions being granted in order to confirm peculiar features in the charters of the Bank of British North America and La Banque du Peuple:

(*a*) The bank shall not issue notes or begin a banking business till $200,000 of its capital shall have been *bonâ fide* paid up, and the fact certified to by the Treasury Board.

(*b*) Twenty per cent. of the subscribed capital shall be paid each year after the beginning of business.

(*c*) The notes in circulation shall not exceed the amount of the bank's unimpaired paid-up capital, and no note shall be issued for less than $4.[1]

(*d*) Notes of the bank shall be received in payment at any of its offices, but shall not be payable in specie or Dominion notes at places other than where they may be made payable. One of such places shall always be the bank's chief seat of business.

(*e*) Usually half, and not less than one-third, of the cash reserve shall be held in Dominion notes.

(*f*) No loans or discounts shall be made on the security of the bank's own stock, but the bank shall have a privileged lien for any overdue debt on the shares and unpaid dividends of its debtors, and may decline to transfer such shares until the debt is paid.

(*g*) The paid-up capital shall not be impaired by any division of profits. Directors concurring in such impairment shall be individually liable for the amount as for a debt due to the bank. Capital lost shall be made up forthwith by calls on the shareholders for any unpaid portion of the subscriber's capital stock, and by application of all net profits. * * * (This clause was designed to prevent that reduction of capital stock on account of losses which had been a potent source of evil in the past.)

(*h*) No division of profits by way of dividend or bonus shall exceed 8 per cent. per annum until the rest or reserve fund, after deducting all bad and doubtful debts, shall equal 20 per cent. of the paid-up capital stock. * * * (An obstacle to such extravagant and disastrous divisions by way of bonus as characterized the policy of the Bank of Upper Canada.)

(*i*) Suspension of payment of any liabilities as they accrue, continuing for ninety days, shall constitute the bank insolvent and determine its charter, except for the purpose of making certain calls, and for winding up the business.

(*j*) The property and assets of the bank being insufficient to pay its liabilities, the shareholders shall be liable for deficiency to the amount of their respective shares, in addition to any amount on those shares not yet paid up. This liability shall be enforced to the extent that the directors deem necessary to pay all the debts of the bank, without waiting for the collection of debts to the bank, or the sale of its property. The directors shall make calls for not more than 20 per cent. of each share at intervals of thirty days, and on notice given thirty days prior to the day on which the call shall be payable, as soon as the suspension shall have continued for six months, the first call to be made within ten days after the expiry of six months. Shareholders failing to pay any call as it becomes payable shall forfeit any claim in the assets of the bank without preventing the recovery of such a call, or of further calls. In the case of a bank *en commandite*, the unlimited liability of the principal partners shall accrue against them immediately, without waiting for any preliminary proceedings whatever. * * (This improvement in the double liability clause, largely one of procedure, was a highly important reform, the need for which had been well taught by the failure of the Bank of Upper Canada. Under the amended law, it became possible immediately to enforce the liability of shareholders, and promptly to pay off the debts of the banks. The hardship of waiting for dividends had formerly oppressed the bank's creditors; it was now justly transferred to the bank's proprietors.)

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[1] By a separate statute, the banks in Nova Scotia acting under provincial charters, were empowered to issue notes for $4 and upwards, $20 having been the lowest denomination permitted by the laws of the Province. (33 Vic., cap. 12.)

(*k*) Upon shares the transfer of which shall have been registered within a month of the bank's suspension of payment, the liability of the transferors, saving their recourse against the transferees, shall continue as if the shares had not been transferred. Directors, refusing to make and enforce calls, or to concur in such action, shall be guilty of misdemeanor, and personally liable for damages suffered by their default.

(*l*) The bank shall be subject to any general winding up by Act passed by Parliament.

(*m*) Each shareholder shall have, whenever shareholders' votes are taken, one vote for each share held by him during the previous three months. No person, not a shareholder, shall act as proxy, and no bank employe shall hold proxies or vote in person or by proxy.

(*n*) The shareholders shall have power to regulate, by by-law, matters incident to the management and administration of the bank, but the directors shall not be less than five, or hold in the aggregate less than one per cent. of the paid-up stock. They shall be elected annually by shareholders, and be eligible for re-election, and the discounts or advances to any director, or firm of which the director is a partner, shall not exceed one-twentieth of the total discounts of the bank at the same time.

(*o*) Certified lists of shareholders, the stock respectively held by them, and their residences, shall be transmitted to the Minister of Finance each year before the day appointed for opening of Parliament.

(*p*) The monthly returns to the Government of bank's assets and liabilities shall be made according to an expanded and improved form.[1]

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[1] The form of these returns appears in Appendix I.

(*q*) The making of wilfully false statements in such returns shall be a misdemeanor, and bank officers signing, approving, or concurring therein, with intent to deceive any person, shall be responsible for damages sustained by him in consequence.

(*r*) Giving unfair preference to any creditor shall be a misdemeanor on the part of an officer of the bank.

(*s*) The charter of the bank shall run to the end of the session of Parliament next after the first of January, 1881, and no longer.

The directors of any existing bank were permitted, on authority of the shareholders given in general meeting, to apply for an extension of its charter with amendments subjecting the bank to the first eighteen restrictions outlined above. The Governor-in-Council was empowered, upon favorable report of the Minister of Justice and the Treasury Board, to continue the amended charter, by Letters Patent, from the date of its expiry. to the established date in 1881. The charter was to take effect either from the date of its expiry, or, the shareholders consenting, from any earlier time fixed for its commencement. If it were shown, at the time of the application for the renewal, that the capital stock of the bank was impaired, the Governor-in Council might permit a reduction, not to exceed 25 per cent. of the amount paid-up, and not to reduce that amount below $200,000. This regulation, apparently a reminiscence of the free banking which he supported twenty years before, was a part of his policy specially favored by the Minister. He insisted upon it as essential to his banking measures, and also wished to provide for granting new charters by Letters Patent. But Parliament would not consent thus to strip itself of jurisdiction in the matter.

The monopoly of issuing notes for circulation was assured to the banks by imposing on private or unauthorized issue a fine of $400, recoverable with costs in any court having civil jurisdiction, one-half for the person bringing suit, and one-half for the public uses of the Dominion. Previous legislation in conflict with the present Act was repealed, and the "Act respecting Banks" of 1868 continued to the end of the session of 1872.

§ 42.—"THE ACT RELATING TO BANKS AND BANKING," 1871

The account of Sir Francis Hincks' banking policy is incomplete without some reference to his financial measures. He was a Minister fertile in schemes to keep the Treasury full. One of his measures, for the passing of which he relied, probably, more upon a disciplined majority than on the arguments advanced in its behalf, I have already noticed in his increase of the Dominion note circulation. The cognate plan to secure the permanent loan of one-half the cash reserves of the banks in the Dominion is also familiar. Another device, adopted in 1871, was the assumption of the Government savings banks established in the maritime provinces before Confederation. He further provided for starting new offices, and for converting Savings Bank deposits into five per cent. debentures. (34 Vic., cap. 6.) Post Office savings banks had been provided for under his predecessors.

The competition of the Government savings banks was a serious factor in the general banking situation for many years. The high interest (4 to 4½ per cent.) paid on deposits, and the lack of adequate restriction on the amount which individuals might deposit, diverted a considerable part of the sums ordinarily kept by the banks to the chests of the Government. Only in 1886 were precautions taken to correct these faults and limit the banking functions of the Government to custody of the savings of the poor, ignorant, and those unable to judge for themselves as to the security of their investments.

By a third scheme, chartered savings banks were now obliged to reorganize under general legislation, to provide a comparatively large paid-up capital, and to invest it in Government debentures. (33 Vic., cap. 7.) Insurance companies, both domestic and foreign, had been compelled in 1868 to maintain deposits with the Minister of Finance. All these measures were supported by the plausible plea of guarding the public interest, but it is not unlikely that they served that interest as much by helping to find the Government of the day with ample funds as by protecting individuals from loss.

The last item of the list, though hardly a financial measure, is quite as germane to our subject. In a statute of 1871 (34 Vic., cap. 4), provision was made for (*a*) expelling from the circulation the large amount of American silver by which Canada had been flooded since the suspension of specie payments in the United States; (*b*) substituting therefor, the Canadian silver coinage in pieces of five, ten, twenty-five and fifty cents, and copper coinage in pieces of one cent, the silver being legal tender to $10, and copper to twenty-five cents; and (*c*) for establishing *throughout Canada* as the compulsory money of account, *an uniform currency* in the denomination of dollars, cents and mills, at the equivalence of $10 Canadian = the American eagle, coined since 1832, and weighing 10 dwts., 18 grs. Troy, and $4.86⅔ Canadian = the British sovereign, the two coins mentioned and fractions thereof being made a legal tender in Canada.

On the 3rd March, 1871, the Minister explained to the House of Commons that in only one single instance had a charter been renewed according to the Act of the previous year. "Banks," he continued, "almost unanimously expressed themselves in favor of having Parliamentary charters. When this was ascertained, and it was only quite recently, the Government determined that they would endeavor to embody in one general banking Act, not only the provisions of the previous Act of the last session, but also the general provisions of what he might term the internal regulations of banks, and which they themselves seemed desirous should be, as nearly as possible, assimilated. This was the extent of the Government's intentions, but there seemed to be a very general desire that in the Bank Act the charters should be extended for ten years."[1]

The Act drafted in accordance with this purpose was passed with very slight discussion in either House, and, on the 14th April, received the Royal assent. (34 Vic., cap. 5.) This statute was the first general law under which the banks really worked, and may be regarded as practically the first Bank Act of the Dominion. Still, the measure of 1870 contained the essence of the Government's policy. We have to note one change in the capital requirement, no new bank being now permitted to issue notes or begin business with less than $500,000 capital *bonâ fide* subscribed, and $100,000 similarly paid-up. The payment of a further sum of $100,000 was required within two years from the beginning of business. An idea of the comprehensiveness of the

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[1] Parliamentary Debates, Canada, Vol. II., p. 255.

Act may be gained from the titles, General Regulations §§ 4 to 16, Internal Regulations §§ 17 to 29, President and Directors §§ 30 to 38, Powers and Obligations of the Bank (loans, interest, advances on warehouse receipts, etc.) §§ 39 to 54, Bank Notes, Bonds, etc. §§ 55 to 56, Insolvency §§ 57 to 59, Offences and Penalties §§ 60 to 67, Notices § 69, Future Legislation §§ 70 to 71, Special Provisions as to certain banks §§ 72 to 75, Repealing and Saving Clauses §§ 76 to 77.

The law as to loans on warehouse receipts and similar documents was thoroughly revised, difficulties of procedure removed, and some amendments added. A considerable advance was made here in the legislation which allowed banks making advances to take, instead of personal security, the security of commodities stored against the time to market them, passing into, out of, or through Canada, or undergoing conversion from the raw state to products such as pork, bacon, hams, malt, flour and sawn lumber. How important this possibility was, not only to the development and maintenance of the country's trade, but also to the safe conduct of banking, will appear as the careful attention to the "warehouse receipts" clauses and the wide extension of the underlying principle, are noticed in later pages.

It was also declared that the bank might acquire and hold as collateral security for any advance, "shares in the capital stock of any other bank, the bonds or debentures of municipal or other corporations, or Dominion, Provincial, British or foreign public securities." If the original debt were not paid when due, the bank might dispose of such collateral after thirty days' notice to the debtor.

A further discussion of the statute is unnecessary. It would be tedious to repeat at length the substance of its seventy-seven sections, and twenty-four octavo pages; to amend the Minister's description of its purpose would be difficult. And in the end, we should have discovered almost no provision completely unfamiliar, a large part of the Act being devoted to the re-enactment and consolidation of legislation with respect to banks already in force. Aside from certain technical amendments in 1872, 1873, and 1875, the Bank Act remained without change until 1879.

The achievement of first bringing the Canadian banking system into the form on which later legislators merely built, has frequently been ascribed to Sir Francis Hincks. It is true that he proposed certain reforms to Parliament, that his Resolutions were adopted with little substantial change, that the Act of 1871 is still the basis of the statute governing banks and banking. But the characteristic provisions of the Acts of 1870 and 1871 did not originate with Sir Francis Hincks. One of the few features for the invention of which the Minister *was* responsible, viz., the renewal of charters by Letters Patent, failed within the year; another, the reduction of the minimum capital to $100,000, adopted probably for political reasons, was afterwards changed, and was never found to exact sufficient cash guarantee of intention to carry out a *bonâ fide* business; a third, the power to loan upon stock of other banks, was proved pernicious in less than three years, and was repealed in less than eight. The bank reforms of practical value which he introduced, had all been suggested and justified by bankers, investors in banks, and business men, some one, some two, and some eleven years before they were adopted by the Government. To unify the banking system, the Minister extended the law of old Canada to the Provinces of Nova Scotia and New Brunswick; to reform it, he followed, not original schemes of his own, but the suggestions of the bankers called in consultation. Yet the banking policy of their successor formed a distinguished and admirable contrast to Mr. Galt's injurious attempt to establish a currency of Government paper, and to Mr. Rose's effort to revolutionize the system of bank note issue. They wished to remodel it according to personal hobbies; he allowed the Canadian banking system to keep to the natural lines of its growth. Of the wisdom of his decision, each year of the twenty-three since elapsed has afforded new and stronger proof.

CHAPTER VIII

BANKING UNDER THE CONFEDERATION, 1867-1889

§ 43.—THE EXPANSION BETWEEN 1867 AND 1873

THE economic history of Canada since the Confederation of the Provinces presents several well-defined periods, of which the first includes 1868-1873, the second 1874-1879, and the third extends from the autumn of 1879 to nearly the close of 1883. The most interesting of the three, probably, is the first, but even a cursory description would need the whole of a separate paper; to mention a few of the phenomena, and some of the general results, is all that respect for the limits of the present essay will permit.[1] The period was one of growth, great apparent prosperity and general expansion. Thus, the total debt of the Dominion was increased from $93,000,000 in 1867 to $141,000,000 on the 30th June, 1874; the net interest charge rose from $4,300,000 to $5,100,000. The receipts of the Treasury rose from $13,600,000 to $24,200,000, and the expenditure in similar ratio. Fifteen and a-half millions of dollars were spent upon the Intercolonial Railway, one million and a-half on the canals, a million on the Canadian Pacific Railway. Twelve millions of the debt increase was in Dominion notes, the circulation of which was quadrupled from 1867 to 1874. The total exports of the country, $57,000,000 in 1868, were $89,000,000 in 1874; the imports, $73,000,000 in 1868, were $128,000,000 in 1873-4. Extension of the railway system was begun in 1871;

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[1] It might well be desired that some account of the commercial growth and economic development of British North America were available. A most careful search has revealed no such work, and it is impossible to refer the reader to a convenient and full discussion of questions which can barely be touched here.

by 1875 the mileage was doubled, being 4,826 miles as against 2,497 in 1870. The figures serve to indicate what other evidence proves to have been true.

There was heavy immigration into the country. The area of settlement was extended. In the west, the new Province of Manitoba was established. The supply of agricultural produce was much increased, and a powerful impetus given to the business in produce. Building operations in Canada and the United States, and the rapid additions to the railway system in either country, raised the price of lumber. With the increase of other foreign demands, they stimulated the timber trade, and caused abnormal inflation. The speculation extended to timbered lands and timber limits. All sorts of manufacture were pushed to bounds, which, in 1875, were acknowledged to have been unreasonable.[1] Municipalities of every grade caught the infection and adopted the pernicious system of granting bonuses to manufacturing companies proposing to establish themselves in the district of the grantors. The whole series of years was marked by general growth of commercial operations, expansion of credit in its various forms, and large additions to the class of small shop-keepers doing business on long time. Except where related to timber production, the values of real estate were much less affected by the upward movement than other investments. The time is best described as one of increased activity in manufacture, transportation and exchange. The great land boom had occurred in 1857 and preceding years.

The banks, it may be expected, shared in this expansion. From May, 1868, to June, 1874, twenty-eight new charters were granted by the Dominion Parliament, the record for each session being as follows: 1868 one, 1869 two, 1871 four, 1872 ten, 1873 nine, 1874 two.[2] After 1870, the charters usually provided that if $100,000 of the new bank's capital were not paid in to some existing chartered bank, and the fact certified to within one year from the date of incorporation, the charter should be forfeited for non-user. Provisions as to the payment of an additional $100,000 varied, the term being fixed at from one to three years after the beginning of business. In four cases the time for commencing operations was extended to the end of the second year. The work of founding a bank was by no means finished by the passing of the Act of incorporation, and some of the charters were forfeited. Nevertheless, nineteen new banks came into existence and entered the competition for Canadian business before the end of 1874, but only nine of these were making returns to the Government by the end of June, 1873. The Commercial Bank of New Brunswick, the Commercial Bank of Canada, the Gore Bank, and the Merchants Bank (acting under a Nova Scotian charter in 1867), whose combined capital in 1867 was a little over $6,100,000, had disappeared from the return. So the total number of banks in the four provinces, acting under charter, appeared in the Bank Statement for June, 1873, as thirty-three, a net increase of five since June, 1867.

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[1] *The Monetary Times*, the contemporary newspapers, other financial and monetary publications, and the statistics prepared for the Dominion Government, are the chief sources for the facts of this period.

[2] See Note 1, next page.

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[1] These were as follows:

		Site of Principal Office	Act of Incorporation			
1868	Bank of Agriculture*	Hamilton, Ont.	31	Vic.,	cap.	85
1869	The Merchants' Bank of Halifax	Halifax, N.S.	32-33	“	“	59
“	The Dominion Bank	Toronto, Ont.	32-33	“	“	60
1871	The Metropolitan Bank	Montreal, Que.	34	“	“	39
“	The Bedford District Bank*	Waterloo, Que.	34	“	“	40
“	The Western Bank*	Yarmouth, N.S.	34	“	“	41
“	The Bank of Liverpool	Liverpool, N.S.	34	“	“	42
1872	The Exchange Bank of Canada	Montreal, Que.	35	“	“	40
“	Banque Ville Marie	Montreal, Que.	35	“	“	51
“	The St. Lawrence Bank	Toronto, Ont.	35	“	“	52
“	The Bank of Hamilton	Hamilton, Ont.	35	“	“	42
“	The Halifax Banking Co	Halifax, N.S.	35	“	“	54
“	The Bank of Acadia	Liverpool, N.S.	35	“	“	55
“	The Bank of St. John*	St. John, N.B.	35	“	“	56
“	The Maritime Bank of the Dominion of Canada	St. John, N.B.	35	“	“	58
“	The Superior Bank of Canada	Toronto, Ont.	35	“	“	59
“	The Bank of Manitoba*	Fort Garry, Man.	35	“	“	60
1873	La Banque d'Hochelaga	Montreal, Que.	36	“	“	13
“	The Three Rivers Bank*	Three Rivers. Que.	36	“	“	14
“	La Banque de Saint Jean	St. Johns, Que.	36	“	“	15
“	The Stadacona Bank	Stadacona, Que.	36	“	“	73
“	The Imperial Bank	Toronto, Ont.	36	“	“	74
“	The Victoria Bank of Canada*	Montreal, Que.	36	“	“	75
“	Pictou Bank	Pictou, N S.	36	“	“	76
“	La Banque de St. Hyacinthe	St. Hyacinthe, Que.	36	“	“	77
“	The Central Bank of Canada*	Montreal, Que.	36	“	“	78
1874	The London and Canada Bank*	Toronto, Ont.	37	“	“	55
“	The Bank of Ottawa	Ottawa, Ont.	37	“	“	56

* Charter forfeited for non-user.

The totals of the various items included in the return were as follows :—

LIABILITIES	30th June, 1867	30th June, 1873
Number of banks in operation	28	33
Capital authorized	......	$64,766,666
Capital paid-up	$32,500,162	55,102,959
Promissory notes in circulation	10,102,439	24,956,046
Due to other banks in Canada	2,984,344	1,807,404
Due to other banks or agents not in Canada		2,496,969
Government deposits payable on demand[1]	14,935,213	7,261,273
Other deposits payable on demand		31,074,316
Government deposits payable after notice[2]	16,727,378	4,451,017
Other deposits payable after notice		25,[illegible]0,531
Liabilities not included above	......	349,821
Total liabilities to the public	$44,548,376	$98,296,677

ASSETS [3]	1867	1873
Specie	$8,200,229	$6,829,226
Provincial or Dominion notes		8,353,290
Notes of and cheques on other banks	1,806,052	4,571,650
Balances due from other banks in Canada.	5,345,372	3,095,220
Balances due from other banks or agents not in Canada		11,879,044
Government debentures or stock	6,277,593	1,324,761
Loans to the Government	......	107,869
Loans, etc., to corporations	......	2,431,710
Notes and bills discounted and current	54,899,142	121,977,754
Notes and overdue debts not specially secured	......	1,242,897
Overdue debts secured	......	1,298,356
Real estate other than bank premises	1,628,249	934,841
Bank premises		2,186,780
Other assets not included above	2,618,021	2,286,355
Total assets	$80,772,834	$168,519,746

About $364,000 of the Gore Bank's capital was written off when it disappeared from business, and two-thirds of the capital of the Commercial Bank. If this is added to the capital of the Commercial Bank of New Brunswick, the sum of $3,630,666 is obtained as the gross reduction of banking capital between 1867 and 1873. The gross increase, therefore, will be $55,102,959 paid up capital on the 30th June, 1873, less $32,500,162, the like total in 1867, plus $3,630,666, or $26,233,463, an increase of over 80.71 per cent. More than fifteen million dollars of this increase was contributed by the shareholders of the Bank of Montreal, the Merchants' Bank of Canada, and the Canadian Bank of Commerce, in nearly equal proportions. The remaining eleven millions were added to the capitals of twenty other banks, in amounts ranging from $70,000 to $1,130,000. The increases of over a million dollars were those of the Royal Canadian Bank and the Union Bank, while the Quebec Bank, Molsons Bank, Bank of Toronto, Ontario Bank, Banque Nationale, Banque Jacques Cartier, Merchants Bank of Halifax, and the Bank of New Brunswick each added $400,000 or more to their stock.

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[1] This item in 1867 is classed as "Deposits not bearing interest."

[2] In 1867, "Deposits bearing interest."

[3] Owing to incompleteness in the return of the assets of one of the Nova Scotia banks, the figures under this head for 1867 are approximate merely.

The competition between the ambitious and enterprising gentlemen who guided the three larger banks, Mr. E. H. King, Sir Hugh Allan, and the Hon. William McMaster, respectively, did not end before the capital of the Bank of Montreal was brought to an even $12,000,000, that of the Merchants' to $9,000,000,[1] and that of the Bank of Commerce to $6,000,000. Even then they strove each to accumulate the larger rest. The Bank of Montreal, however, had at the start an advantage of almost six millions more capital, and the management of the Government account; it was never overtaken, much less outstripped, by its rivals.

Naturally, with so many banks yet to be opened, the increase of capital did not stop with the date in 1873 at which I have chosen to consider it. Nearly the highest point reached between 1870 and 1890 was in June, 1876, when the official return for forty-one banks showed the total paid-up capital to be $67,199,051.[2] The most of this extension was undoubtedly genuine. Yet banks were empowered, by the Act of 1871, to loan upon shares of the capital of other chartered banks. On December 31, 1873, $3,800,000 of loans were secured by such shares, the aggregate of banking capital then being almost sixty million dollars; on the same date of 1875, $5,300,000 of loans on bank shares were current, total capital being then sixty-three million dollars. To the extent of such loans, and of a good part of the loans granted by the several banks to their own stockholders (an item, however, which does not appear in the return), these additions to capital were practically fictitious. And to that extent, too, the banks were trading on fictitious capital, a practice the faults of which are too obvious to require explanation. Speculation in bank stock was promoted, a large business on margins developed, and, in the end, widespread and heavy losses caused among the participants.

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[1] $498,950 of this were not paid up. The capital of the bank has since been reduced and is now $6,000,000.

[2] Statistical Year Book of Canada, 1892, p. 516.

But, from the mass of evidence examined, I cannot conclude that a greater part in furthering the expansion of the period must be attributed to the banks than to any other important members of the organization of production and exchange. The commerce of Canada was under the influence of much the same tendencies as were acting throughout the civilized world; the returns show that the banks followed rather than stimulated the upward movement. The number and extent of the simpler exchanges increased by reason of the growth of population, higher wages, and greater activity in retail trade. The bank note circulation, wherewith they were effected, also rose, as our comparison shows, from $10,100,000 to $24,900,000 on the 30th June, 1873. Six months later it was $29,016,659. The new commercial enterprises, the greater operations in produce, the processes of railway construction, and the swollen volume of general business, caused a new demand for loanable capital. The rate of interest rose. The banks supplied the need by expanding their discounts and other Canadian loans from some $54,000,000 in June, 1867, to $127,000,000 in June, 1873, and $157,000,000 on the 31st December, 1874, an increase between the extreme dates of $103,000,000. Only $18,000,000 of this was derived from circulation; the remainder from additions to capital, amounting to $31,000,000, and an increase of deposits of all sorts amounting to $54,000,000. For a more extended statistical comparison, there is no present opportunity, but the figures already quoted will suggest the conclusion which such a comparison would establish, viz.: that the extension of banking was not out of proportion to the growth of export and import trade, or to the development of the internal commerce of Canada, and the means of conducting it, or to the apparent increase of accumulation, as indicated by the total deposits in the chartered banks.

§ 44—DEPRESSION, 1874-1879.

That the growth exhibited in the preceding section was accomplished without loss or cost to the banks, is an inference, probably, that no one will make. Yet no panic, in the accepted sense of the term, occurred in Canada in 1873, nor is it easy to discover the phenomenon designated by the broader expression "commercial crisis." Relaxation from the tense activity of the preceding period began in the fall of 1873, and continued through 1874. Thus the change was gradual, though none the less complete for that. Before, however, the effect upon the banks is discussed, a digression to certain losses of an earlier date may be allowed.

By the amalgamation of the old Commercial Bank with the Merchants' Bank of Canada, the shareholders of the former received about one-third of the par value of their paid-up capital. Another of the old Upper Canada corporations was the Gore Bank, established in Hamilton in 1833. At the time of its failure, the Bank of Upper Canada had charge of the Montreal account of the Gore Bank, and owed it about $78,000. The bank was embarrassed in the next year by the failure of the Commercial Bank, to which the Montreal account had been transferred. Then a committee of stockholders reported that three of the agencies should be closed, that another was loaded with bad debts, and that its funds had been misapplied by the manager. The system of inspecting the agencies was neither efficient nor regular. The staff was needlessly large. Heavy losses incurred long previously (principally after the collapse of 1857), had never been written off. The deposits of the City of Hamilton were withdrawn, and though they were afterwards restored, the action injured the bank. The fears of the public were aroused, and a heavy drain started upon the bank's liabilities. Between June, 1867, and June, 1868, its deposits were reduced by $760,000, its circulation by over $330,000.

The price of stock in the Gore Bank, which stood at 92½ in October, 1867, fell to 80 in December, 70 in April, 60 in May, 50 in June, and in October, 1868, to 30 and 35. The Bank of Montreal temporarily advanced $150,000 to help, and other Ontario banks some $200,000. This enabled the Gore Bank to keep on. In June, 1869, the reduction of its stock in the ratio of 40 to 24 was authorized by Parliament. (32 and 33 Vic., cap. 54.) The bank was still solvent, but rather than continue the struggle alone, the shareholders decided to accept for their paid-up stock in the Gore Bank fifty-five cents on the dollar in shares of the Bank of Commerce, then worth 105½. On the 27th August, its debts and property were taken over by the Canadian Bank of Commerce. The old bank was amalgamated with the new, and the sole survivor of the banks chartered by Upper Canada, apparently doomed to perish like the others, lost its identity and separate existence.[1]

Of the Commercial Bank of New Bruswick, which suspended payment on the 10th November, 1868, no more need be said than that its noteholders, depositors, and other creditors were paid in full, and a dividend saved for the shareholders. The Westmoreland Bank, another New Brunswick concern which failed about the time of Confederation, was also creditably wound up, the double liability of the shareholders being successfully enforced.

In 1871 the Bank of Liverpool, situated at Liverpool, N. S., was chartered by the Dominion Parliament, and in the following year the Bank of Acadia, located in the same town. (34 Vic., cap. 42; 35 Vic., cap. 55.) Both concerns were involved with a Boston firm of rather doubtful credit. The Americans had taken one-fourth of the Liverpool's stock, and one-eighth of the Acadia's, and paid for it by promissory notes.[2] In connection with lumbermen and ship owners of Liverpool, they got some advances by a system of mutual indorsement, and other credits on bills of exchange drawn on the American house and supposed to be covered by lumber shipments, but met really by the proceeds of similar new bills. The funds thus obtained were used to increase the lumber plant of the ring, rather than to discharge their debts, or to pay for the quantities of merchandise purchased in Montreal, Boston and Halifax. Liverpool and the surrounding country enjoyed a season of high prosperity. But early in 1873, acceptances of the American house went to protest, the principal Liverpool firm succumbed, and with it dragged down the banks. The Liverpool failed on the 11th April, the Acadia, after a business life of four months, on the 18th. Dun, Wiman & Co. reported failures for liabilities of $3,000,000 in Nova Scotia during 1873, and the prospect that creditors would get 30 to 33 per cent. of their claims. One-third of the amount involved was owed by parties in the neighborhood of Liverpool.[1] There the pinch was severe, and the losses, compared to the resources of the community, heavy. The Bank of Liverpool ultimately resumed; the Bank of Acadia never resumed and paid almost none of its debts. But its total liabilities at the time of suspension were only $106,914, and the loss directly due to this bank failure was slight.

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[1] *Monetary Times and Insurance Chronicle*, Vol. II., pp. 162, 167, 398, 468, 525, 867; Vol. III., p. 36.

[2] *Ibid*, Vol. VI., p. 915; Vol. VII., p. 222.

Reverting now to the more general aspects of Canadian banking, we have to observe, in the summer of 1872, a slight stringency in the money market, and the rise of the rate of discount to 10 per cent. Discounts, however, increased, as indeed they continued to increase, until the end of 1874. The addition was doubtless partly due to the speculative efforts of traders in wool, produce, lumber and timber, to hold the stocks they had bought for a rise, or manufactured in hope of large profits. A subsequent increase of loans on bank stock is similarly to be explained. In the early months of 1873 activity still prevailed in all directions. But by March the banks, in spite of advancing prices, began the policy of restricting discounts. In May, the large American lumber company of Dodge & Company failed. Its connections with Canadian houses were close and many, and numbers of operators in timber and sawn lumber were forced to the wall. The deep depression in products of the Canadian forests dates from this point. Then came the American crisis. But confidence in the banks was strong. It was strengthened by full explanation as to their escape from losses in the States. The condition of Canadian producers was improved by the higher grain prices, due to the scarcity in England. And, except for a slight but rapid decline in bank stocks in September, and a small run on two or three of the banks, no critical features appeared in the situation, and the country escaped the evils of a banking panic.

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[1] *Ibid*, Vol. IX., p. 549.

During the next year the banks enforced the restrictive policy with what strength they could. The absolute increase in their total advances was due in a measure to the necessity of supporting the operations of many of their debtors until the assets of these parties could be better realized. The real stringency did not occur until January to March, 1875. In these three months, the deposits of banks in Ontario and Quebec were reduced by $8,500,000 to $70,800,000, and their circulation by $3,900,000 to $21,500,000. They met this drain of $12,500,000 by drawing on English correspondents for $2,300,000, calling in funds, chiefly from the United States, for $2,500,000, reducing their outstanding loans by $2,300,000, and by parting with cash to the net amount of $1,700,000. New stock for $1,300,000 was paid up during the period, and the liabilities of the larger to the smaller banks, for whom they were agents, increased by $1,800,000. A test no less severe was stood by the banks in 1893, and, as in 1875, passed without exciting the public or precipitating bank suspensions.

Of commercial failures, on the other hand, the record for 1875 shows an enormous increase, 1,968 as against 966 in 1874, and 994 in 1873, and for liabilities of $28,843,967, as against $7,696,765, and $12,334,191, in the two preceding years. The record for 1876-78 is nearly as bad, but hardly suggests the full severity of the hard times through which the people of the Dominion were passing.[1] In the winter of 1876, the depression reached what was, probably, the lowest depths. The carrying trade between foreign ports had fallen off, and the ships had been brought home to compete with coasting vessels for the diminished volume of Canadian trade. The lumber and timber trade was suffering from lessened demand in England and the

[1] See Note 1, next page.

United States, from reduced prices, and from the increased competition of the products of Michigan and Wisconsin forests. Stagnation in the lumber trade left many of the laborers usually employed in it without work. Farmers and others who supplied them were affected, and in great sections of the country, dependent for prosperity on the lumber business, the stimulus to active industry was withdrawn.

The long credits, easily obtained from English houses, had induced persons to enter the wholesale business, ill-equipped either with capital or experience. Imports were purchased in excess of the actual needs of the country. To get rid of them, long credits were granted in turn to retailers. The wealth of the country had increased at best not more than five per cent. per annum, but imports more than thirteen per cent. The conclusion from this and the annual difference between the exports and imports, was that the country had bought in excess of its power to pay. The annual interest charge upon the foreign mercantile debt alone, then about $78,000,000, was $4,000,000. Added to this were payments upon railway, Dominion, Provincial and agricultural debts held abroad, a total burden that served sorely to intensify that mercantile distress for which the system of long credits was largely responsible.

Ship-building and agriculture felt the troubles in less degree; like the agricultural implement industry, they were comparatively prosperous. Iron manufacturers lost by stoppage of the railway enterprise, and coal, cotton, salt and slate industries were

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[1] The following is DUN, WIMAN & Co.'s list of failures in Canada for the years in question:

Year	No. of Failures	Liabilities
1879	634	$11,648,697
1878	1615	23,152,262
1877	1890	25,510,147
1876	1728	25,517,991
1875	1968	28,843,967
1874	966	7,696,765
1873	994	12,334,191
	9795	$134,704,000

Monetary Times, Vol. XII., p. 1303.

all more or less depressed, the shrinkage in their business being proportionate to that in other lines.[1]

After their experience early in 1875, the banks had the disagreeable task of appraising their mistakes, and reckoning their losses in the "era of remarkable prosperity" which had been brought to a close. Certain items of their assets underwent striking changes. "Notes and debts overdue, and not specially secured," rose from $1,141,410 on the 31st December, 1872, to $4,436,636 at the end of 1875. "Overdue debts, secured by mortgage or other deed on real estate, or by deposit of, or lien on stock, or by other securities," rose from $1,455,385, in December, 1873, to $4,057,591 in December, 1877, while "real estate (other than bank premises)" increased from $586,996 in 1873, to $2,383,454 at the close of 1879. "Notes and bills discounted and current," on the other hand, fell from $139,379,457 in December, 1874, to $97,603,688 in December, 1879, circulation from $28,465,192 to $22,352,761, and all classes of deposits from $85,600,000 to $79,370,000. The reduction of deposits, it will be observed, was comparatively slight, the reason, of course, being that in hard times idle money is placed with more attention to the safety than the profit of the investment. The last change to be noted is that in paid-up capital. The item stood at $66,800,225 on 31st December, 1875; four years later it had fallen to $60,351,505, within $700,000 of the lowest point reached after 1874. All these changes, however, are better studied from the table given in the Appendix I.

§ 45.—BANK FAILURES AND LOSSES, 1874-1879

The reduction in the banking capital of the country was effected in four ways: I—the reduction of capital stock by resolution of the shareholders of the bank under authority granted by Parliament; II—the amalgamation of banks according to special Act of Parliament, and reorganization on a reduced capitalization; III—voluntary liquidation and retirement from business; IV—and compulsory winding up.

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[1] "Report of the Select Committee on the Causes of the Present Depression of the Manufacturing, Mining, Commercial, Shipping, Lumber and Fishing Interests," printed by order of Parliament, Ottawa, 1876, sections 3 to 15.

I. (*a*) The capital of La Banque Jacques Cartier was successively reduced from $2,000,000 to $1,000,000 in 1877, and from $1,000,000 to $500,000 in 1879. (40 Vic., cap. 55 ; 42 Vic., cap. 54.) The policy of the bank in the preceding period was described as enterprising and aggressive. It had no branches and the losses were due to the poor management by which many ill-advised loans became lock-ups. The cashier was afterwards convicted for falsifying returns.

(*b*) The President and General Manager of the Merchants' Bank of Canada resigned in February, 1877. A new Manager took hold of the bank in March. At his suggestion, the stockholders secured authority in 1878 to reduce its stock in the ratio of three to two. The reasons assigned for the reduction were bad and doubtful debts previously unprovided for, losses in the New York office by gold transactions in a falling market, the reduced market value of the Detroit and Milwaukee bonds purchased at the time of the Commercial failure, expenses and losses incurred in disposing of certain Quebec securities, and provision for contingencies likely to arise in the business of a widely extended bank, whose organization was lacking both in strength and centralization. The reduction effected was almost $3,000,000, the capital being brought from nearly $9,000,000 to a little less than $6,000,000.

II. (*a*) The Niagara District Bank, one of the survivors of "free banks," lost heavily from the failure of American correspondents in 1873. It is probable that the decaying fortunes of St. Catharines, the city in which the bank was established, also affected it. The paid-up capital in June, 1873, was $356,000. The bank was amalgamated in 1875 with the Imperial Bank of Canada (38 Vic., cap. 61), and an exchange of shares made on the basis of the relative value of the two stocks. Certain assets of the Niagara District Bank were excluded from the reckoning for realization in exclusive behalf of the original proprietors.

(*b*) In 1876 the St. Lawrence Bank, of Toronto, was rechristened the Standard Bank of Canada, and shares of the old bank's stock of the par value of $100 exchanged against new shares worth $50, at the ratio of one to one and a half. This operation, nominally an amalgamation, was really a stock reduction (amounting to not more than $150,000), by which the bank could start on a new basis, and escape whatever associations may have been attached to the name St. Lawrence. (39 Vic., cap. 45.)

(*c*) At the instance of the City Bank, then under the presidency of Sir Francis Hincks, that corporation and the Royal Canadian Bank agreed to unite in September, 1875. The agreement was confirmed by Parliament in 1876, and the two reincorporated as the Consolidated Bank. (39 Vic., cap. 44.) No reduction of capital occurred at this time, but rather an increase. The reasons for the union are obscure; the subsequent history of the united bank pertains to another part of the section.

III. (*a*) The Metropolitan Bank of Montreal was one of the banks chartered in 1871. From the first it engaged largely in loaning upon bank stocks, and taking exceptional transactions at high rates of interest.[1] It was young and ambitious, and its officers, no doubt, fancied their methods modern. When the turn came in 1874-5, the bank's affairs took a different aspect. Instead of profits there were large losses. In May, 1876, it held $121,150 of its own stock, over 15 per cent. It had been forced to re-discount in October, 1875, $425,000; in May, 1876, $187,690. As given in the Return for October, 1876, the assets of the bank were $314,000 less than the liabilities to the public and shareholders. In June, 1877, authority having been obtained from Parliament, the shareholders resolved gradually to wind up the bank, pay off its debts, and save their investments from further depreciation. The reduction of paid-up banking capital due to this action was $800,170.

(*b*) Like the Metropolitan, the Stadacona Bank of Quebec was one of the younger corporations. And like those of the Metropolitan, its shareholders, discouraged by adverse fortune, decided to wind it up. Voluntary liquidation was begun in July, 1879. Within two years the proprietors had recovered about 90 per cent. of their investments, and the prospect for further returns was good.[2] By this action, $990,000 were withdrawn from the banking capital of the country.

IV. So far a gross reduction of $6,500,000 in capital alone has been accounted for, without mention of the other ways in which, to meet their losses, the banks were obliged to reduce the valuation of their resources. To investors, of course, reduction of rests or reserve funds, the application of earnings to prevent the impairment of capital, and the falling off in dividends, was almost as serious as actual impairment of capital. The average rate of dividend paid in 1874 by banks in Ontario and Quebec, was 8.76 per cent.; in 1878, 6.46 per cent.; in 1879, less still. The shrinkage of the market value of bank shares in four years was estimated in 1878 at not less than $17,000,000. In 1879 Sir Francis Hincks reckoned the shrinkage at $25,000,000.

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[1] *Monetary Times*, Vol IX., p. 1129.

[2] *Monetary Times*, Vol. XIV., p. 70.

From the standpoint of the banking interests, the year 1879 was the most disastrous of the five. On the 28th May the Mechanics' Bank stopped payment; on the 16th June, La Banque Jacques Cartier; on the 1st August, the Consolidated Bank; on the 7th, the Exchange Bank; on the 8th, La Banque Ville Marie; and in October, the Bank of Liverpool. All save the last named had their head offices in Montreal. Naturally the public were alarmed by so many suspensions, and began to wonder where difficulty would next arise. But the condition of the failed banks, if the decline of stocks is an indication, had been suspected for some time. Many former creditors had transferred their trust to banks in better esteem. Moreover, it was known that the Exchange, Ville Marie and Jacques Cartier Banks would soon be enabled to resume. The press and financial leaders pointed out the exceptional circumstances of the banks in trouble, and urged the people to maintain a sober calm. Runs started upon some of the solvent banks were cordially met, and in one way and another a bank panic was again averted.

(*a*) The first of the failures was the worst. The Mechanics' Bank had been a blot on the Canadian banking system for years, and it died at last because it was too corrupt to live. The support accorded for a time by the Molsons' Bank was withdrawn in 1876. The Mechanics' was then obliged to reduce its capital by 40 per cent. Its subsequent existence was maintained by means neither worthy nor legitimate. The managers had almost no support from reputable business men, their discount business was small and confined to the most undesirable classes. The circulation, on the contrary, was higher in proportion to capital than that of any other bank in Montreal, but it was kept up by artificial and improper methods. Brokers in Montreal, and agents on the steamboats and at the hotels, were used by the Mechanics' Bank to change its notes for other paper, and were paid for the service. After its failure, the shareholders were forced to contribute the whole of the double liability. Even then but forty-five cents on the dollar of the bank's debts, either by notes or deposits, had been paid in 1882, and in the end only 57½ per cent. of its liabilities were redeemed. The principal sum thus lost by the creditors was not less than $240,000; the reduction of the banking capital of the Dominion, caused by its losses and disappearance, about $450,000.

(*b*) From the failure of the Consolidated Bank, on the contrary, the public lost nothing beyond the discount of 10 to 25 per cent. to which the note-holders, wishing to realize soon after the suspension, were obliged to submit, and the interest upon claims, the payment of which was postponed until the bank's assets could be liquidated. To analyze the causes of this failure, it would be necessary to examine the comparatively weak condition both of the City and Royal Canadian Banks at the time of amalgamation in 1875, their small rests and mediocre earning power, the evils of the double-headed system of management adopted, the incompetence of certain higher employés of the bank, unjustifiable advances to firms of small calibre in Montreal and elsewhere, and the unhealthy condition of Canadian business in general at the time the Consolidated met its heaviest losses. In May, 1879, authority was granted to reduce its paid-up capital, then about $3,500,000, by 40 per cent. (42 Vic., cap. 53.) A new manager and three new directors discovered other losses amounting to $1,420,000. Soon after the bank failed. In 1881 a Montreal stock broker offered to give $260,000 for the Consolidated's assets, and pay what debts were still outstanding. He was accepted by the stock-holders. Including the 10 per cent. dividend already declared, the stock-holders thus recovered about twenty-three cents on the dollar of their reduced stock.[1]

(*c*) The Bank of Liverpool failure differed from that of the

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[1] *Monetary Times*, Vol. XV., p. 127. "The Canada Securities Company" was the formal title of the purchaser of the Consolidated's assets.

Mechanics', in degree rather than kind. After the suspension of 1873, the stock had been transferred to new holders, the bank and business reorganized. Further losses were suffered, which in 1876 reduced the value of the capital to $100,000. It managed, nevertheless, to survive till the autumn of 1879. It failed in October for total liabilities of $136,000. The Bank of Nova Scotia bought its assets, and paid the $4,000, or less, of notes which had been issued. The stock-holders successfully evaded the efforts to collect the double liability down till 1890. As the item in the balance sheet of the Dominion, termed "Bank of Liverpool Liquidation Account," still stands at $84,996, the exact amount shown in "Government Deposits" in the last statement returned by the bank before its suspension, one may conclude that its debts have not been reduced in the last four years. If this be so, the creditors have lost $132,810, and the interest for fifteen years; $35,053 of the principal was owed to other banks, and $12,761 to the general public, the rest to the Government. The shareholders, of course, lost all their investment, in round numbers, $370,000.

The Liverpool's was the last of this series of failures. Including the debts of the Bank of Acadia, the ultimate loss of principal by creditors from the three disasters was less than $500,000.[1] The losses inflicted upon shareholders by the various operations detailed in this section were far heavier, not less, probably, than $12,000,000.[2] Upon the banking system of Canada the general effect must be regarded as hygienic and highly salutary. The business was purged of well-nigh twelve badly invested millions.[3] The excessive banking competition so conducive to the unsound trade, exaggerated "enterprise," and speculation on borrowed capital that had festered in the country's commerce, was palliated. Mindful of the lessons taught by five years of depression, and animated by the resolve to buy less and produce more, to live economically and work hard, Canadians were now prepared to turn to best advantage the changes that were about to come in their affairs. The banks. too, relieved in great degree of the incubus of inflated assets and capital beyond their needs, were now in the best of condition to extend their business in safe directions, and in so doing, to lend their countrymen whatever help should be deserved.

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[1] Or, precisely, according to the most careful calculation, $482,300.

[2] The materials for these calculations and the statistics as to banks failed or going into liquidation, were mostly derived from an unprinted "Return to an Order of the House of Commons, dated the 23rd January, 1890," Sessional Papers, Canada, 1890, Vol. XV., 30 c. Other sources were the *Monetary Times*, various daily newspapers containing reports of shareholders' meetings, etc., the "Statement of Banks acting under Charter," published in the *Canada Gazette*, and for some facts, private letters from persons acquainted with them. Part of the Return cited, it should be said, is printed in Garland, *ut supra*, p. 42; but this quotation contains at least two serious errors, namely, as to the dividends paid to depositors in the Bank of Liverpool and in the Exchange Bank of Canada. In neither case was the payment as Mr. Garland has it, made in full, but the dividend from the former bank to creditors, not noteholders, was practically nothing; from the latter, about 66 per cent.

[3] *Cf.* The remarks of the General Manager of the Bank of Montreal, on the 4th June, 1878: "There is, perhaps, no department of business where competition is more keenly felt than in banking. We have, perhaps, as great an excess of banking capital as in any other line of business. We have to compete not only with the capital wielded by our neighbors in Canada, but also with the very cheap money of Great Britain, which is finding its way more and more into this country."—*Monetary Times*, Vol. XI., p. 1,432.

In October, 1879, the tide finally turned. The prices of wheat and flour rose by nearly 33⅓ per cent. The iron market improved. Breadstuffs, groceries and dairy products increased in value. The market for timber and sawn lumber revived, and exports increased. The grain crop was good, and the farmers soon disposed of it. The entire commercial organization felt the new impulse, manufacturers, importers, exporters, wholesalers, retailers. With the entry of a new party to the control of the Government, the scheme for a transcontinental railroad was pushed forward. Millions on millions were brought into the country in the next few years to build the Canadian Pacific Railway towards the western coast. Settlement in Manitoba had been started some years before 1879. Immigration now increased rapidly. Canadians also took a part in the development of the West. Extraordinary activity in real estate began along the line of the new railroad, and indeed, throughout the more accessible portions of Manitoba. But this is material for the historian. We must turn to

§ 46.—THE BANK ACT REVISION OF 1880

Such changes as were made in the banking law of the Dominion after 1872, were designed to correct defects of detail rather than alter general principles. In 1873 the form of the monthly return was expanded in the manner shown by the table in Appendix I. (36 Vic., cap. 43.) An Act of 1875 relaxed the clause by which the bank was unconditionally forbidden, directly or indirectly, to deal in shares of its capital stock, an exception being granted for the necessity to realize upon such shares held by the bank as security for any pre-existing and matured debt.[1] The form of the monthly return was again amended, and a statement of the direct and indirect liabilities of the directors required. (38 Vic., cap. 17.) In 1876 a general Insolvent Act, passed the year before, was applied to incorporated banks, with modifications for their peculiar powers and circumstances. (39 Vic., cap. 31.) By 1879 the evils of permitting the banks to loan upon shares in other chartered banks were become too manifest longer to be tolerated. The clause permitting loans upon shares was stricken out by an Act taking effect upon the 15th November, 1879. (42 Vic., cap. 45.) The lien in favor of the banks upon shares held as security for such loans then current, or for renewals thereof, was declared to cease with the end of the Parliamentary session of 1880. To enforce the prohibition, banks were required, under penalty, to number their shares, while in all contracts for the sale of bank stock, made after the 1st October, 1879, it became necessary to specify the numbers of the shares conveyed. Not to do so was made a misdemeanor.

The expiry of all bank charters had been set for the 1st July, 1881. In accord with the policy adopted a decade before, Ministry and Parliament took up, in the session of 1880, the question of what changes to make in the system at the time of the first decennial renewal of charters.

They were anticipated both by the public and banks. Among the people, much dissatisfaction had been caused by the bank suspensions of the preceding year. The notes of only one of the failed banks were finally redeemed at less than their nominal value, but at that time liquidation in several cases was still incomplete. To change the notes of failed banks into convertible paper. the holder had to submit to a discount, and the brokers who took the risk exacted ample pay for it. Many of those holding notes at the times of suspension had only the option between this loss and physical want. They were forced to realize at the time when the credit of their debtors was at the lowest ebb. They could not even wait until the fears of the first week were quieted, much less till the day of final payment. And upon other scores, the failure of the Mechanics' Bank, the shameful inadequacy of its assets, and the pitiful dividends paid to its creditors, gave every one just cause for complaint.

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[1] The expression "Bank" is defined to mean any bank to which the Act applies. (33 Vic., cap. 5, sec. 2.)

The bankers understood the popular discontent with the security of the currency. They saw their own interest, and the country's interest, no doubt, in calming it. For them, their privilege of circulation provided an easy, convenient, and useful means of profit; to the country, it gave an elastic currency, increased sources of discount, and through the system of branches promoted by it, widespread and accessible banking facilities. To make the currency more secure would be a help to the banking interest no less than to the people; the one would be strengthened in credit, and the other protected from loss.

Sir Samuel Leonard Tilley, of New Brunswick, was then Minister of Finance. To him the bankers presented, as with one voice, their proposals for reform. Among them was the plan to make the notes issued by a bank the first charge upon its assets in case of insolvency. It was believed that by this plan the ultimate payment of all bank notes in full would be assured. For the total assets of each bank were from six to ten times its debts on notes, and it was thought impossible for a bank to keep in business until its entire assets were worth but one-sixth or one-tenth their nominal amount. Beyond the assets, there was the reserve liability of shareholders, equal always to the highest limit of the authorized note issue. That limit might be exceeded, but not without fraud. To prevent such fraud, the fear of punishment was believed effective. Even the most reckless bank operator would know that the world is a small place for the criminal, and the arm of the law surprisingly long.

Against the scheme, revived apparently by the bank troubles of 1879, to remodel Canadian charters on the plan of the National Banking System of the United States, the bankers exerted an energetic opposition on grounds with which we are long familiar. Another proposal was to establish a Government bank inspection, or to provide for the appointment of an auditor by shareholders. Some of the banks had been grossly neglectful of proper inspection, and difficulties arising between 1876 and 1879 were clearly traceable, in certain cases, to the failure promptly to detect and acknowledge the character of questionable assets. But the bankers argued that on account of its many branches, and the multiplicity and variety of the commercial paper in its assets, it would be impossible for a Government inspector, or an auditor, properly to inspect a Canadian bank. It was far better to rely on the careful organization of the banks, the vigilance of the directors, and the inspection by trained men of its own staff, who, travelling the year round from branch to branch and reporting to the General Manager, would have nought to gain by concealing the truth, and everything to lose. Then if a bank upon which the report of the Government inspector had been favorable should fail, many of those who had made their deposits on the strength of the official report would certainly hold the Government responsible for such loss as they might incur. The Minister decided in favor of all three of the contentions of the bankers.

The resolutions for the Banking Act Amendment Bill brought down by Sir Leonard Tilley, were adopted by the House without much objection, and after very short debate. The principal proposal, further to secure the note circulation, was objected to by Liberals, as likely to increase the danger of runs from depositors, if from no other motive than a desire to convert his ordinary claim into a privileged lien.[1] This, it will be remembered, was the view taken by Sir Francis Hincks in 1870, a Minister to whom they were also in opposition. But what really deprived the criticism of its force was the fact that the proposal now came from banks. The Bill itself was presented on the 27th April, 1880. It passed the House on the 5th May, the Senate on the 7th. On the same day it received the Royal assent. (43 Vic., cap. 22.)

The charters of the thirty-four banks still in operation were continued to the 1st July, 1891, and those of four others until their liquidation should be completed. Besides establishing a prior lien in favor of the holder of an insolvent bank's note, the Act prohibited the issue or re-issue of notes for sums less than $5, or sums not multiples of $5, and called for the retirement of all $4 notes as soon as practicable. The banks were obliged, when making any payments, to pay the sum at the request of the payee, or so much thereof, not exceeding $50, as might be requested, in Dominion notes for one or two dollars each, at the option of the receiver. The proportion of cash reserves, to be held in Dominion notes, was raised from one-third to 40 per cent. Proxies not made or renewed in writing within three years next preceding a meeting of shareholders were declared invalid for purposes of voting.

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[1] Debates of the House of Commons, Canada, 1880, Vol. II., p. 1,729, Remarks of Sir Richard Cartwright.

Persons holding stock as representing others, if so declared in the bank's books, were exempted from liability on such stock, recourse being reserved against the estate and funds held in trust. The form of the monthly return was again expanded, partly to secure more complete details of the position of the several banks, partly to remove the ambiguities in the return, by which criminal prosecutions under the Bank Act had been lost by the Crown in 1879.[1] As a safeguard against investments of too great permanence, the period for which the bank might hold real property not required for bank premises, was limited to seven years from the date of acquisition. The assumption by any firm or bank of the title of "bank" without authority under the general banking laws of the Dominion, was made a misdemeanor. The purpose of the clause was to guard the public from misplacing their confidence on the supposition they were dealing with establishments organized by Parliament; one result was to confirm to the chartered corporations exclusive privileges in the name. The requirement that bank shares should be numbered, and the numbers specified in contracts for the sale of shares, was repealed. It had interfered with legitimate trade in bank stock, while the brokers, against whom it was aimed, had successfully evaded it. The sections of the Bank Act dealing with loans upon warehouse receipts, etc., were again amended. Besides timber, all sorts of lumber, all agricultural produce, and other articles of commerce, the expression "goods, wares and merchandise," were extended to include petroleum and crude oil. A bank, upon shipment of goods, was permitted to surrender the warehouse receipt for them, and receive in exchange a bill of lading, or upon delivery and storage of the goods, to surrender the bill of lading received as security, and take a warehouse receipt in exchange.

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[1] MORGAN, The Dominion Annual Register, Montreal, 1879, p. 320.

Some further changes were made in 1883, with the purpose of more effectually enforcing the prohibitions, restrictions, and duties already imposed on the chartered banks. Most of these had hitherto been sanctioned by the penalty of charter forfeiture. Experience had proven that this was insufficient by reason of its excessive severity. The banks had imposed somewhat upon the unwillingness of the Government to punish a slight transgression by depriving the guilty corporation of its existence. So, while the penalty of forfeiture was held in reserve, money penalties were now adopted to bring the banks to time. For each day's delay, after the opening of Parliament, in transmitting to the Minister of Finance the certified list of shareholders, a fine of $50 was imposed. The penalties laid upon note issue in excess of capital stock paid-in, were as follows:

for an excess not exceeding $20,000	$ 100
for excess between $20,000 and $100,000	1,000
for an excess between $100,000 and $200,000	5,000
for an excess not exceeding $200,000	10,000.

Other fines were: for each time that the Dominion notes in the cash reserve should be less than 40 per cent. thereof, $250; for each day of neglect to send the return within twenty days of the end of each calendar month, $50; for each contravention of the sections limiting the business of the bank to certain transactions and classes of loans, $500. The form of the return was amended to show the amount of the rest or reserve fund, and the rate per cent. of the last dividend. The last change to be mentioned was opposed by friends of the many private banks, but was become necessary, further to prevent the public from being misled.[1] The use of the titles, "Banking Company," "Banking House," "Banking Association," "Banking Institution," or "Banking Agency," by bankers, not working under the Bank Act, was made a misdemeanor, unless the expression "not incorporated," were added to the title. (46 Vic., cap. 20.)

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[1] Debates of the House of Commons, Canada, 1883, pp. 99 *et seq.*, 188 194, Remarks of Sir Leonard Tilley, Messrs. Blake, Fairbank and Casey.

§ 47.—DOMINION NOTE LEGISLATION, 1872-1880

Though one of them was explained as response to public complaint of difficulty in securing Dominion notes, the new clauses of the Act of 1880 in regard to these legal tender issues were altogether in the interest of the Government. Likewise in the interest of the Government, was the provision by which the banks were deprived of the right to issue notes for $4. For it was intended partly to refill their place in the circulation by Dominion notes, and to increase the issue in other ways.

Under pressure from friends of the Government, Sir Francis Hincks had reluctantly consented in 1872 to mar the beautiful analogy to the English system he had devised in his first Dominion Note Act. The reserve of specie required against issues in excess of nine million dollars was reduced from dollar for dollar to "not less than 35 per cent. of the excess." (35 Vic., cap. 7.) Prior to 1874 there was frequent criticism of the inadequacy of the reserve held against the notes, and complaints that the requirement as to bank reserves had diminished the amount of gold in the country. One also finds protests that the Government should cease to issue from Toronto, notes payable at Montreal, or *vice versa*, and that when called on for specie to ship for New York, it should desist from paying out sovereigns instead of eagles, and thereby forcing American gold to a premium, often one-eighth of one per cent. Nothing has yet appeared to justify the opinion that these criticisms, complaints and protests were without good cause.

When the Liberals came into power they improved the law in accord with the sound monetary theories of their Minister of Finance, Sir Richard J. Cartwright. By the amending Act of 1875 (38 Vic., cap. 5), the Receiver-General was required to hold against the outstanding circulation in excess of $9,000,000 and less than $12,000,000, fifty per cent. in specie; and against any excess over $12,000,000, specie to the full amount. In 1876 the laws respecting Dominion notes were extended to the Provinces of Prince Edward Island, British Columbia and Manitoba, and the Governor authorized to establish branch offices of the Receiver-General's department at Charlottetown, Victoria and Winnipeg.

Sir Leonard Tilley now proposed to extend the limit of notes, only partially covered by specie, to $20,000,000, the circulation to be increased by not more than $1,000,000 at a time, or more than $4,000,000 in any one year. At the same time, he proposed to reduce the strength of the specie reserve by providing that a minimum, equal merely to 15 per cent. of the amounts outstanding, should be covered by gold, by this gold and Dominion securities guaranteed by the Government of the United Kingdom, not less altogether than 25 per cent., and the remaining 75 per cent. or less of the issue by Dominion debentures, issued for the purpose, and held by the Receiver-General. The project was strongly opposed by the minority in Parliament. It was the rallying point of the whole debate upon questions of banking and currency. The Minister, however, beheld the prospect of added financial aid; he heard, perhaps, the clamors of the "rag baby" as well among the people as in Parliament. He was confident his bill would find favor among the friends of Government paper. His party was always ready to follow Sir John Macdonald, and Sir John strongly supported the bill. It passed, as a matter of course; but the victory was one of votes rather than reason. (43 Vic., cap. 13.)

§ 48.—1880 - 1889

Two of the general measures relating to banks, and passed by Parliament in these years, have been mentioned. The only other important laws in the group were three Acts respecting corporate bankruptcy; "an Act respecting Insolvent Banks, Insurance Companies, Loan Companies, Building Societies, and Trading Corporations," passed in 1882, another of the same title in 1886, and the "Winding-Up Amendment Act" of 1889. (45 Vic., cap. 23; 49 Vic., cap. 129; 52 Vic., cap. 32.) To describe these measures in their entirety would involve too long an excursus into bankruptcy law, and only seven of the one hundred and twenty-three sections of the statute in its final form applied exclusively to banks.

Private Acts respecting individual banks were far more frequent. There had been two new charters granted between 1875 and 1879, to wit: in 1875 to the "Banque Saint Jean

Baptiste," of Montreal, and "The Chartered Bank of London and North America" in 1876. (38 Vic., cap. 59; 39 Vic., cap. 40.) The latter bank had as charter members, two bank presidents, one a member of the House, the other of the Senate, the Mayor of Toronto, and three other senators: but they failed to attract the $250,000 required before the bank could begin business. Like the project of the "London and Canada Bank," whose charter was extended a further year in 1876, it was the expression of an effort to secure more English capital for Canadian uses, by means of a colonial bank with an agency established in London, England, under a local board of directors. The charter was revived, amended, and the name of the proposed concern changed to the "Chartered Bank of London and Winnipeg" in 1880. But neither of these projects to introduce methods so closely resembling those of the Australian banks, was ever successfully carried out.

Thirteen new banks were incorporated between 1882 and 1886. There were four in 1882,[1] three in 1883,[2] four in 1884,[3] and two in 1886.[4] Of the four proposed for Winnipeg, Manitoba, one started, the Commercial Bank of Manitoba. Of the two for Montreal, for one of which, the "Planters' Bank of Canada," it was planned to have branches and local directors in the United Kingdom and the West Indies, neither began business. Of the two for London, Ontario, only the "Bank of London in Canada" was established. Of the three whose head offices were to be in Toronto, two, the "Central Bank of Canada" and the "Traders' Bank of Canada," secured the necessary capital. One other corporation, the "Western Bank of Canada," opened in Oshawa, Ontario. Out of the thirteen, eight charters were forfeited for non-user, in spite of the extension, in four instances, of the time limit fixed for payment of the capital required before the charter could be used.

Another, and rather farcical, episode of the Parliamentary history of banking in this decade was the agitation carried on by a few strong-lunged members from the rural ridings. They wanted "Farmers' Banks," increased issues of legal tender paper, and the allied measures which have been most favored in the United States by the Greenback Party and Populists. Similar proposals had been advanced in 1878 by Mr. Thompson, of Welland.[1] But the movement was begun on more definite lines in 1884. The motion for a Select Committee to consider means of giving farmers better banking facilities was supported by Dr. Orton in a speech which still fills five pages of the debates.[2] His complaint in behalf of the farmers against the extortions of private money lenders, or note shavers, was probably well founded. Then, too, the preliminary expense of search of title, law fees, etc., made the cost of short time loans on real estate excessively high; yet how the issue of Dominion notes, secured by first mortgage on farms, and redeemable only by four per cent. bonds, could mend matters, he failed to make clear. There was as little reason in the other proposals, *e.g.*, to establish farm, or real estate banks on capitals consisting of farm mortgages, Government bonds, and gold, to permit them to deposit the capital with the Government, and secure paper Government money in return, to permit these banks to charge no greater interest on ordinary loans than 6 per cent., and on mortgage loans than 5 per cent., and to deprive the chartered banks of their power to issue. Underneath the plan, as one may see, lurked hostility to the banks, and the so-called "money power." The notions entertained by the speaker on interest, capital, money and banking were perverted, while he was strongly influenced by a penchant for irredeemable paper currency, and a simple faith in the universal efficacy of legislation.

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[1] 45 Vic., cap. 61-64.
[2] 46 Vic., cap. 50-52.
[3] 47 Vic., cap. 48-51.
[4] 49 Vic., cap. 64-66.

The next year he drafted resolutions for a Bill, and was helped in support of them by the advocates of small local banks, admirers of currency secured by bonds, and believers in the issue of paper currency exclusively by Government. No less than Sir John Macdonald himself closed this debate, and in words of honeyed ambiguity, soothed, even consoled the agitator, while not committing the Government.[3] In 1886 the question was again introduced, a new Bill prepared, and the measure actually brought to the stage of consideration in committee. There it stopped for good.[1] In 1885 some of the Opposition asserted that the apparent willingness of the Government to devote time to the discussion was really a bit of fence repairing for the next election. Those less swayed by party feeling will doubtless prefer to explain it by the broad and tolerant spirit for which the Premier and his colleagues were distinguished.

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[1] Debates, House of Commons, Canada, 1879, p. 1,211.

[2] *Ibid*, 1884, pp. 211-215.

[3] *Ibid*, 1885, pp. 115-120.

The story of the banks themselves during this decade has fewer sensational features, and no such strong contrasts as that of the preceding ten years. In most cases the end of the term found the banks with increased business rather than capital. The total capital in 1889 was $60,259,910, $70,000 less than in 1879. The total deposits, payable on demand to the general public, rose from $42,000,000 on the 31st December, 1880, to $55,000,000 on the last day of 1889; deposits payable after notice or on a fixed day, from $37,000,000 to $71,000,000; the total liabilities of all the banks from $121,000,000 to $171,000,000. Loans on stocks, bonds, etc., rose from $8,000,000 to $13,000,000 between the two dates; loans, discounts or advances on current account to corporations other than municipal, from $4,000,000 to $23,000,000; current loans, discounts and advances to the public, from $105,000,000 to $150,000,000; and the total assets of the banks, from $192,000,000 to $252,000,000. A larger proportion of the funds of the banks were invested in Canada on the latter date. "Balances due from Agencies of the Bank, or from other Banks or Agencies in Foreign Countries," were only $10,729,877, as compared with $19,313,588 on the 31st December, 1879, and $27,041,608 a year later.

For this heavy increase of business on both sides of the account, there are two causes at least, close at hand. The one is the growth of Canadian trade and industry; the other the policy by which the number of branches was increased, and the banks brought into closer relations with the country's needs, particularly to those of the agricultural sections. This last may have been partly prompted by the evidences of discontent with their banking facilities among the farmers. But two other strong inducements were also effective, the first being the chance profitably to employ funds in the assistance to agriculture and the industries that thrive by its side; the second, the opportunity for increasing the note circulation that a country business always affords to a bank.

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[1] *Ibid*, 1886, pp. 427, 432-437, 571-585.

As a general rule, the practice of the banks was marked by greater caution and prudence than in 1870 to 1875. More attention was paid to the soundness and security of business taken in hand. Inquiry as to the application of means became more searching. As a result, advances converted by borrowers into real estate, improvements, or plant, or used as permanent capital, became fewer, the losses and lock-ups less serious. A share in this bettering of the discount business must be ascribed to changes in the personnel of the staff of the banks. Whether their first training had been received in Britain or in Canada, nearly all the higher officers of the banks had now enjoyed a long Canadian experience. To the admirable traditions of Scotch and English banking, they added a minute and extensive knowledge of Canadian conditions, a double equipment which redounded largely to the advantage of their employers. A keener appreciation of sound banking principles may be remarked in the declarations of managers and presidents in their published speeches to shareholders; it may be inferred from the fewer losses and bad debts incurred by the banks as a whole. This progress was furthered by the memories of 1874 and 1879, and regret for many costly mistakes in the time of expansion. It was also promoted by the penalties imposed for violation of the Bank Act, and the amendments in the Return, calculated more fully to expose a bank's condition to the watchful criticism of the public.

It is not to be supposed from this that the course travelled by the banks was one of unbroken prosperity, or that the statements, generally true, were without exception. The recovery from the depression of the seventies was slow, and as late as 1881 it became necessary for the Exchange Bank and the Banque Ville Marie to reduce their capitals each by one-half a million dollars. (44 Vic., cap. 35-36.) They, however, were exceptions, the other banks having met their losses years before. The banks generally shared in the better times of 1880 to

1883; they felt the reaction in 1884-1887; their business, like that of the rest of the country, again displayed normal activity in 1888. The periods named can be understood in only the most general way; conditions varied in different parts of the country, and changes did not come at precisely the same time.

Probably the most striking conditions and changes were to be found in the "Prairie Province," Manitoba. There the railway, immigration, settlement and trading in real estate between 1879 and 1881, developed a land boom of the first order. The price of building lots in Winnipeg, the Provincial capital, rose above the value of land as centrally located in Toronto and Montreal. All kinds of land schemes were started, and there was a corresponding expansion of enterprises of other sorts. Thousands of persons in Ontario had sold the solid securities which often comprised their entire fortune to put the proceeds in lands in prairie villages of which the ink on the first survey was hardly dry. As others lost, they lost. The upward flight of values was high, but it was brief. The end came late in the autumn of 1882. Millionaires in prospect found themselves paupers in fact. The inflation was tolerably thorough throughout the Province, and when land values fell, a good part of the community became insolvent forthwith. Their ruin caused other failures, and so on, until those were also brought down who had thought themselves, and were thought by others, perfectly independent of the turn taken by the market for real estate.

It was on this account, and not because they had loaned on land or encouraged the inflation, that the chartered banks who had established agencies in Manitoba lost heavily. Of the five banks earliest to enter the field, three dismissed their Winnipeg managers. This will indicate how grave were the losses, but not how great. To know that, one would need for some years to have attended the regular board meetings of at least seven different banks. None of these institutions were compelled to suspend payments. One advantage of branch banking is the possibility under it to spread and differentiate risks; the gains of a bank and the safety of its loaning business as a whole does not depend on the ups and downs of a single community or commercial and industrial group. Having staked but a part of their funds in Manitoba, the banks passed through the trouble with their entire resources lessened, no doubt, but by no means destroyed, and from gains in the East they were enabled to meet losses in the West. The only outward signs of loss were lower dividends, reduction of, or smaller additions to rests and in one or two cases, reduction of capital stock.

Between 1882 and 1888 six of the banks which are still in existence, provided for losses incurred in their loaning business by reduction of capital, under authority of Parliament, amounting to $4,070,000. Although they occurred in a time of general trial, the causes of these reductions were, as a rule, peculiar to the situations, mistakes, or management of the individual banks. To examine them here would need inquiry altogether too particular and minute.[1]

§ 49.—BANK FAILURES, 1883-1889

Reduced to its last analysis, the economic function of banking is to facilitate that exchange of commodities against commodities which is the essence of modern commercial credit. The ease, cheapness and thoroughness, the efficiency, in short, with which that service is performed for other members of the economic organization, is the first great point in the criticism of any banking system. The second point is the security afforded to those who must become creditors of the banks in order to utilize their services. Shareholders are obviously excluded from this class. Their investments are commercial ventures, subject to commercial risks. The description applies only to note holders, depositors and creditors on other evidences of debt given by banks. The security afforded them is measured by the extent to which the obligations of the banks are redeemed in full, a proportion best ascertained by computing the more or less of debts which are not paid, and the amounts ultimately lost. The data as to such losses are to be had only

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[1] These reductions were:

Year		Amount of Reduction	
1882	Ontario Bank	$3,000,000 to $1,500,000.	45 Vic., cap. 57.
1882	Exchange Bank of Yarmouth	350,000 to 280,000.	45 Vic., cap. 60.
1885	La Banque du Peuple	1,600,000 to 1,200,000.	48-49 Vic,, cap 8.
1886	Union Bank of Canada	2,000,000 to 1,200,000.	49 Vic., cap. 58.
1886	Bank of New Brunswick	1,000,000 to 500,000.	49 Vic., cap. 59.
1888	La Banque Nationale	2,000,000 to 1,200,000.	51 Vic., cap. 48.

from study of bank failures. The efficiency of the Canadian system has been reserved for principal treatment in the chapter next but one. Facts relating to its security, on the contrary, must be examined in more or less close connection with the conditions from which they arise.

1. The first of the events now to be considered is the failure of the "Exchange Bank of Canada," of Montreal, an institution chartered in 1872. In August, 1879, it was obliged to suspend payment, but resumed in November; $500,000 were written off its capital stock in 1881. The directorate was wealthy, and their standing, combined with manipulation of the stock, kept the shares of the bank high in the public esteem. Within a year of the failure stock was sold for $179 a share. But the management was bad, and after 1881 it showed no improvement. In April, 1883, the bank came to the Government for help. A deposit of $200,000, bearing interest at 5 per cent., and payable at thirty days' notice, was made with the Exchange Bank. In May, $100,000 more were granted on the same terms, the personal security of one of the directors of the bank, a Conservative Senator, being taken as a guarantee of repayment. Over one-half the stock was then owned by prominent Conservatives. The collapse of the North-West boom was still troubling men's thoughts, and many felt that the country was about to experience a serious crisis.[1] The crisis might be precipitated by the sudden stoppage of a single bank, and end in the failure of several.[2] The advances, the friends of the Government afterwards said, were made to prevent a run on the Exchange Bank, and so to ward off the crisis. The other side thought they might well have been made to enable friends of the Government to escape from the double liability of their stock. In 1885 the Hon. Edward Blake called the concern a political bank, and an example of the disasters awaiting a political bank.[3]

In the four months following the advances, the condition of the bank grew worse and worse. Except for $120,000, its liabilities were as high in September as in March. More than the current rate was paid for deposits, money was borrowed in large amounts, and used for advances of the most reckless and desperate sort. The Managing Director of the bank appears to have lacked all sense of responsibility or honor. With some of his colleagues on the Board, he used the funds in his charge to manipulate a block of 1,000-1,200 shares of the bank, about one quarter of the whole stock. He entered other unlawful and personal speculations, made entries in obscure parts of the books, and kept papers pledging the bank's credit in his private drawer.[1] When the bank failed on the 15th September, 1883, he owed it $226,000. When wanted in December, he was not to be found.[2] The total liabilities of the bank at the time of suspension were about $2,430,000, the nominal value of the assets $3,335,907. The notes for $380,218 then in circulation never sold for much less than ninety cents on the street; within two months the liquidator was ready to pay them, and all presented were ultimately redeemed in full. Upon the other debts, after a capital of $500,000 and a rest of $300,000 had been wiped out and the double liability of the shareholders collected from all who could pay, only 66½ per cent. was returned to the creditors. Their loss of principal was thus a trifle less than $690,000; that of the shareholders, at one time and another, may be estimated at from $1,600,000 to $1,800,000. But the shareholders could not blame commercial conditions, defects of the banking system, or the hostility of their competitors, for the loss. It was due to shameful malversation and disregard of duty on the part of the management. The Government endeavored to establish a preferential lien, for the collection of its debt, but their suit was lost because the common law priority of the Crown did not exist in the civil law of Quebec. The "Exchange Bank Liquidation Account" still stands in the Dominion Balance Sheet for 1893, as an asset of $77,337, the cost, less interest, of Sir Leonard Tilley's salvation of the country. It is true that while the failure caused great scandal and indignation in Canada, it started no panic. The prices of bank stocks generally were unaffected, the course of the Exchange Bank, according to the President of the Bank of Montreal, having been known, and its suspension discounted.[1] The scandal was aired in Parliament in 1884, and resolutions condemning the advances to the Exchange Bank were moved in the House of Commons by prominent Liberals. The Government received full measure from the country's vial of wrath, but were sustained when it came to a vote, by 97 against 60.

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[1] Debates, House of Commons, Canada, 1885, pp. 382, 383, Mr. White.

[2] *Ibid*, 1884, p. 161, Sir Leonard Tilley.

[3] *Ibid*, 1885, p. 378, Hon. Edward Blake.

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[1] *Ibid*, 1885, p. 308, MR. MCMASTER.

[2] *Monetary Times*, Vol. XVII., issue of the 12th September, 1879.

II. The next failure was that of the "Maritime Bank of the Dominion of Canada," situated in St. John, N.B. It also was chartered in 1872. In its first eight years it had lost nearly $600,000, the probable reason being that those in control, instead of scattering risks, preferred to make loans *en bloc*. Its president was described as a merchant, manufacturer, politician and banker, a man of large ambition and small capital, always ready to play high, especially when staked with the money of others.[2] The bank was reorganized in 1883-4, put in more careful hands, and the paid-up capital reduced by 64 per cent. to $247,000. In spite of the fact that large Provincial and Dominion deposits were made with the bank, its subsequent course was not prosperous. In 1887 it had accounts overdrawn for $650,000, of which $350,000 were against the assets of bankrupts. Advances far in excess of its capital were locked up in a series of lumber accounts, which, though under different names, were really against a single concern. The bank became a party to kiting sterling bills of exchange, in order to sustain itself. When it stopped payment on the 8th March, 1887, its liabilities were about $1,826,000. The $314,000 of notes in circulation were the first charge on its assets, and so far as presented, were paid in full, though only after more than two years were elapsed. On the 28th February, the Dominion had $70,735 deposited with the bank, the Province of New Brunswick $205,180; each Government succeeded in enforcing the Crown priority, and thus escaped practically all loss. The other creditors have been paid dividends of 6 and 3 per cent., and will receive, the liquidators say, 1 or 2 per cent. more. Should the total dividend amount to 11 per cent., the creditors of the bank will have lost about $750,000 of the principal of their claims. Assuming that the collection of the double liability was fairly successful, the shareholders lost by the bank's failure and the previous reduction of stock, a sum nearer a million than $950,000.

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[1] *Montreal Gazette*, 18th September, 1883, Letter of MR. SMITHERS.

[2] *Monetary Times*, Vol. XIV., p. 418; Vol. XV., p. 731.

III. Through the failure of some of its largest debtors, the "Pictou Bank," of Pictou, N.S., suffered dangerous lock-ups between 1884 and 1886, amounting to over $220,000.[1] No dividends were paid after January, 1884, and in 1886 twenty per cent. of its paid-up capital was written off by authority of Parliament. (49 Vic., cap. 62.) The next year it became necessary to suspend banking operations. The shareholders secured a permissive Act, and in September, 1887, the bank being still solvent, they voluntarily put it into liquidation, paid their debts in full, and saved from 30 to 40 per cent. of their reduced capital ($200,000).

IV. The Bank of London in Canada was established in 1883. After a brief life of four years, it suspended payment on 19th August, 1887. The fortunes of the bank were blighted by the sinister influence of a speculative President. He had drawn largely on its resources, and had involved its funds with the affairs of an insolvent loan company, "The Ontario Investment Association," then under his control. On the eve of completing arrangements for selling the business of the Bank of London to the Bank of Toronto, he had decamped to the United States. The paid-up capital of the bank was $241,101. Some $90,000 of this was saved, after payment of all debts in full.

V. The liquidation of the Central Bank of Canada was not quite so creditable. This bank was another young concern chartered in 1883. It suspended payment on the 16th November, 1887, and ceased a business which, for a year at least, had been distinctly discreditable. It placed stock in towns outside of Toronto by promising to establish branches if certain amounts were subscribed for. It had pushed business tending to increase the note circulation. It had even paid brokers for help in keeping out its issues, and in order to get money, it sold them certificates of deposit at a discount. Its comparatively large deposits were acquired by paying one or two per cent. more than the current rate. A few large customers, a clique of directors, and certain brokers, got advances utterly out of proportion to their credit. Through their schemes, and in methods still more scandalous and dishonest, the capital of $500,000 and the proceeds of the double liability to nearly an equal sum, were wholly sunk. Note holders were paid in full ; other creditors 99⅓ per cent., the loss thus inflicted on the public being about $14,260.

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[1] *Monetary Times*, Vol. xx., p. 125.

VI. The last event of this series was a voluntary liquidation rather than a bank failure, but as a bank "misfortune" it is most conveniently treated with the others.

The Federal Bank of Canada (originally called the Superior Bank) was incorporated in 1872, but did not open its head office in Toronto until 1874. Under enterprising and ingenious management the capital of the bank was doubled in 1882-3 to $3,000,000. In July, 1883, its stock sold at 158½; on the 26th June, 1884, when the General Manager resigned, it brought 80½. From the investigation then made, it appeared that the bank held no less than 6,000 shares of its own stock. Most of these had been seized as additional security for advances, originally on overdrawn and unsecured account, or mere promissory note, to the Commercial Loan and Stock Co., an inside corporation, which was used to borrow the bank's funds, either to loan upon stock in the Federal, or purchase it in order to keep up the price.[1] The scheme, at its best, was a highly disreputable evasion of the prohibition in the Bank Act, against loaning on bank stocks. A run was started on the bank in the last days of June and the first week in July, but was successfully met by help of the other banks, who offered temporary advances for $2,000,000, and made arrangements for transfers of discount accounts.[2] Under the new Manager appointed, the "little machine" through which $600,000 of capital had been given fictitious existence, was promptly wound up. In 1885 authority was secured to cancel 5,000 of the shares held by the bank, and to reduce the remaining capital to $1,250,000, on account of losses from Michigan lumber transactions and loans in Manitoba. (48 & 49 Vic., cap. 8.) In spite of such drastic treatment, the Federal Bank did not recover its prosperity, or the full confidence ordinarily placed by the public in its banking institutions. Bank stocks fell generally in the autumn of 1887, and the Federal dropped below par. The bank was thus discredited, and between the 31st October and the 25th January its situation again became critical. It had been called on to pay $210,693 of notes, and $1,421,393 of deposits, a total drain of $1,632,085.

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[1] *Monetary Times*, Vol. XVIII., pp. 571, 576.

[2] *Ibid*, p. 576.

Representatives of the banks having offices in Toronto met upon the Federal's case, and examined the condition of its assets. As the result of this examination they offered to advance enough money to pay off the entire liabilities of the bank, and to wait for repayment from the liquidation of its assets, on condition that the bank should be wound up with open doors. The step was decided on because the condition of the bank's affairs was found to be such that its continuance in business was not possible, and because the plan proposed and finally adopted would avoid the panic which the Federal's suspension, after the uneasiness due to the Central and London failures, was likely to cause. The amount of the contribution agreed upon was $2,700,000. By this undertaking they ran the risk of being forced to reduce their reserves to a point beyond that ordinarily thought safe. But Canadian bankers believe that a reserve is for use rather than display. Their prompt and courageous use of their ready cash at this juncture, undoubtedly prevented conditions in which thrice or four times the amount of their reserves would have been needed to still the popular clamor for payment. It saved the shareholders of the Federal bank from the sacrifices of a compulsory liquidation, and allowed them to realize their assets at the most advantageous times, and lastly, it protected the business of Ontario from the costly derangement incident to a banking panic, and a sudden contraction of discounts.

Here ends, for the present, the account of bank failures in Canada. If any conclusion may be drawn from the study, it is that the disasters have been due to faults of practice, rather than defects in the system. It is clear that legislation, scientifically framed, has not prevented poor management, bad management, or fraud. No one, probably, ever expected it would. It is clear also that it has not saved shareholders from loss. A careful estimate shows that, by reductions of capital, liquidations, failures, and contributions on the double liability, shareholders have sunk at least $23,000,000 in Canadian banking since the first of July, 1867. This sum, more than 37 per cent. of the present paid-up banking capital, is independent of the losses provided for out of profits, or met by reduction of rests. The security of a group of banks, however, must be judged, not by the losses of their proprietors, but by those of their creditors. We may see now how well the Canadian system has minimized the creditor's risks. Out of the 56 chartered banks, some time in operation in Canada since the 1st July, 1867, just 38 survive. Ten of those gone before have failed. But the total loss of principal inflicted during twenty-seven years on note holder, depositor, Government, or creditor whomsoever, has not exceeded $2,000,000, or less than one per cent. of the total liabilities of Canadian banks on the 30th day of last June.

CHAPTER IX

THE REVISION OF 1890

§ 50.—DEMANDS FOR REFORM AND THEIR CAUSES

BEFORE the time for renewing the charters for another ten years was arrived, criticism of the Canadian banking system as amended in 1880 and 1883, had pointed out several unqualified defects.

I. One of those which most affected the general public, and prompted the demands for reform coming from that quarter, was the discount on the notes of a failed bank, in the *interim* between its suspension and the beginning of its liquidation. Though by the prior lien given to note holders, final payment in full was certain, it was not always definite. If he wished to realize immediately after the failure, the last holder of the note during its currency was forced to submit to a discount. Although the liquidators were ready to redeem within a month, the discount on the notes of the Exchange Bank after its failure rose as high as five or ten per cent. Redemption of the notes of the Maritime Bank, though finally in full, was delayed for nearly three years after the failure, and in the meanwhile its issues sold for as low as forty cents on the dollar.[1] In notes of the Central Bank of Canada, Americans near Sault Ste. Marie found a profitable speculation by buying them up after the failure, at 10 per cent. discount.

II. Another cause of complaint was the operation of the statute of limitations, or the law of prescription, upon the outstanding notes of a liquidated bank. The winding-up Acts passed by Parliament ordinarily required the liquidators of a bank which had failed, or decided to retire from business, to make all reasonable efforts to call in and redeem the outstanding liabilities. Reserved dividends sufficient to cover any undischarged and unclaimed debts, were required to be deposited at interest with some trustee, ordinarily a bank. After two, or three, or five, or ten years, and a month's notice in the Canada and provincial Gazettes, as well as in a newspaper of each place where the bank had an agency, it was allowable to distribute the surplus of this fund, together with the accrued interest, among the shareholders. Thenceforward, both notes and other claims against the bank were barred and extinguished. Such a time limit was quite too brief. It worked injustice to those holders of notes who were unmindful, or ignorant for the time being, of the character and life of the currency in their possession. The notes of a bank were never entirely called in before the limitation came into effect. In 1882, sixteen years after the failure of the Bank of Upper Canada, $43,301 of its notes were still outstanding. $39,000 had been redeemed by the Government in the twelve years after 1870.[1]

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[1] Montreal *Gazette*, 27th February, 1890.

III. Of a third defect in the currency, some notice was taken in 1869, when Sir John Rose proposed regulations to make it circulate at par in every part of the country. Down to 1889, Canadian bank notes lacked that quality. Although the bank was required to receive its own notes at any of its offices, it was obliged to pay them only at offices where they were made payable, one of such offices being always the bank's principal seat of business. Some banks dated part of their issue at branches, others did not. That was a mere question of book-keeping, some managers desiring such a test for the profits of branches by circulation and others not esteeming it. In any case, the notes of a bank without a branch in the neighborhood did not circulate at their par value in localities remote from the offices where they were payable, or in localities whose trade centre was different from that of the bank whence they were issued. As communication between them became easier, as a larger trade grew up, and closer relations in all ways were established between the eastern, central and western provinces, a larger number of bank notes appeared in the circulation of places distant from their domicile. Occasion for the discount for geographical reasons arose more frequently, and the annoyances from it were rather aggravated.

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[1] Sessional Papers, Canada, 1882, 108a.

The public sense of the first two defects in the circulating medium was undoubtedly quickened by the bank troubles of 1883, 1887, and 1888, and since the stock example of an issue secured by bonds is open to none of the three criticisms, the desire of the people for reform was strengthened by their comparisons of Canadian bank notes with those circulating in the United States. In each case, as the Minister of Finance remarked of the last, there was "a well founded desire that such an anomaly should cease."[1]

IV. A second lesson, emphasized for all observers by the suspension of two banks chartered in 1883, was the failure of the Bank Act to exact what Sir Francis Hincks had termed "the security of a large paid-up capital." It was too easy to get a charter for a proposed bank, and the requirement of $100,000 of paid-up capital before the beginning of business was too slight a barrier round the field of joint-stock banking to prevent the entrance of speculators and untrustworthy adventurers.

V. The beginning of a movement on still different lines was what an American politician, speaking of the revision of 1890, would call the first gun of the campaign. In the annual meeting of its shareholders on the 1st June, 1885, Mr. Smithers, President of the Bank of Montreal, gave new expression to the favor with which the officers of that institution had long regarded the plan to secure bank notes by the deposit of Government bonds. Premising that his Directors were in accord with him, he said: "I am prepared to advocate the policy of putting the banks on the American system, and requiring them to secure their issues by a deposit of Government bonds. It was not pressed at the last revision, not because the Bank of Montreal was not quite ready for the change, but out of consideration for the views of other bankers. It would do away with the necessity for the voluminous statements, for, if the safety of the currency was fully assured, all the statement required could be furnished in half a dozen lines, as I hold that, when the Government has provided the country with a thoroughly sound currency, its duty is discharged. I maintain that it is the duty and privilege of every man to look around and satisfy himself as to the bank he will deposit his money in. * * * * The same is true of the shareholder in selecting his investments.

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[1] Debates, *ut supra*, 1890, p. 2235.

* * It may be said that the people of the United States are looking round for a substitute for the National Banking Law, but if they are, it is not because it has not been a success, but because the supply of bonds is likely to run out, a contingency which is not likely to arise in this country for some time to come."[1] Ten days later the project was effectively disposed of, so far as reason and expediency were concerned, by an editorial in the Toronto *Week*, presumably from the pen of Professor Goldwin Smith. The General Manager of the Merchants' Bank of Canada, Mr. George Hague, also answered it at the annual meeting of his bank on the 18th June.[2]

§ 51.—DISCUSSION PRECEDING PARLIAMENTARY ACTION

I. For a long time, no amount of argument appeared to shake the faith of the advocates of bond secured circulation. In 1890, for instance, the President of the Bank of Montreal, Sir Donald Smith, pronounced the opinion that the "true system of banking for this country would be very much that which has worked so well on the other side of the line, that is, that each bank should guarantee its own circulation."[1] The proposal of Mr. Smithers seems to have been advanced in the belief that its adoption would prevent the formation of small weak banks; the attitude of two of the banks in 1890 is best explained by their unwillingness to assist in securing, through the Bank Circulation Redemption Fund, not their own notes, but those of other banks, especially of the smaller or weaker institutions. The fund, as we shall see, was calculated to invest the notes of the latter with practically the same credit as the public attached to the paper of the strongest or largest banks.

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[1] *Monetary Times*, Vol. XVIII., p. 1,365.

[2] *Monetary Times*, Vol. XVIII., p. 1,427.

In his reply, however, Mr. Hague provisionally suggested as a cure for unsound banking, regulations similar to Sir Robert Peel's treatment of the Scotch and Irish banks in 1845. Now the principles underlying Peel's restrictions of 1845 were those on which he framed the Bank Act of 1844. The Bank of Montreal wanted currency regulation similar to that in force in the United States. But the National Bank Act of that country was modelled after the "free banking" laws of the State of New York, the identical statutes that were copied in drafting the Canadian "Act to Establish Freedom of Banking, etc.," of 1850. That measure was supported in the Montreal *Pilot*, then the organ of Mr. Francis Hincks, as a step in the direction of Sir Robert Peel's policy. The system, it was urged, is "as near in principle a Bank of Issue as the circumstances and position of the country will permit." So far as it related to the currency, therefore, Mr. Hague's proposal was hardly different in theory from the plan which he opposed.

II. The newspapers took up the question early in 1889, discussing and emphasizing all the points detailed in the preceding section. In order to the absolute security of the currency, and its circulation at par all over the country, some of them favored the introduction of the American plan. The policy was supported with particular insistence by the Montreal *Gazette*, in a series of leading articles appearing from time to time in 1889. Besides the ordinary arguments for covering bank notes by bonds to their full amount, the *Gazette* presented possible modifications of the scheme, described the device for giving elasticity by means of maximum deposits, advocated the requirement of a minimum reserve, dwelt on the financial advantages had by the Government under the American system, and argued that "it was favored by many of the larger banks."[2] The position taken by this journal was strongly opposed, and most of its arguments successfully demolished, by a number of excellent journals in which another view of the banking question was taken.

III. On the 15th December, 1888, a circular letter was addressed by the head of one of the Ontario banks to a number of the other banks of the Dominion. After referring to the causes of the criticism generally passed on the bank note currency, the author of the circular suggested that if they desired to retain their powers of issue, it would be expedient for the banks not only to organize, but also, toward disarming their critics, to prepare against the time for renewal of charters any proposals for reforming the banking system upon which they could agree. Then followed the outlines of plans to keep bank notes at par, however far they might be from the place of issue, and to establish a safety fund, contributed from all the banks, whereby to ensure prompt and full redemption to the holders of notes of a suspended bank. At various times in 1889, most of the banks in different provinces completed arrangements to carry out the first suggestion. The banks usually worked towards the purpose in twos, each engaging to perform the service of redeeming the other's notes in its own neighborhood, on consideration of a like service by the other in its district. On the notes of banks who became parties to redemption agreements, this simple device quite prevented the discount for geographical reasons.

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[1] Garland, Banks, Bankers, and Banking in Canada, p. 307.

[2] *Vide* Montreal *Gazette*, 27th November, 1889.

Upon the 11th January, 1890, the representatives of the chartered banks met in Montreal and resolved to request an interview with the Hon. George E. Foster, D.C.L., who, as Minister of Finance and Receiver-General, had charge of the banking measures of the Government. Their request was granted. On the 25th the representatives of twenty-four banks met the Minister in Ottawa. The minutes of this meeting, and of the subsequent meetings on the 11th and 12th February, if any were kept, have never been published, and neither from newspapers of the day, nor from public documents, is it possible to learn just what occurred at them. It is understood, however, that at the first meeting, the bankers inquired the intentions of the Government with respect to the Bank Act Revision, and that the Minister, while refusing to make such an announcement at that time, expressed his willingness to learn their views on certain points. Among these appear to have been the questions,

(*a*) of making the Bank Act a permanent statute, and thus avoiding a revision every decade ;

(*b*) of preventing the discount on the current notes of a solvent but distant bank ;

(*c*) of preventing any discount whatsoever on the notes of a bank, whether it be solvent, awaiting liquidation, or liquidated, or in other words, of improving the security of bank notes ;

(*d*) of further limiting its powers of circulation to 60 or 70 per cent. of each bank's paid-up capital, or to the average amount of notes outstanding during the three years preceding ;

(*e*) of fixing the minimum proportion which the cash reserve of a bank shall bear to its liabilities, and

(*f*) of requiring a larger paid-up capital for new banks.

In regard to the second point (*b*), the bankers remarked the arrangements already made for that purpose, and expressed a wish that the Bank Act should require every bank, on pain of forfeiting its charter, to make arrangements for the redemption of its notes at par, in the commercial centre of each province. To oblige each bank, after the American plan, to receive at par the notes of other banks of the system, would be unjust, for the duty of redemption ought to fall, not upon its competitors, but upon the bank which gains from the circulation. As to the last (*f*), in common with the rest of the country, they thought that more substantial guarantee should be required from bank promoters. To the fourth (*d*), that of further limiting the powers of circulation, they probably objected. Among those represented were many banks with an active business of the sort which requires large, though fluctuating amounts of currency, and for them the restriction would work hardship. Then, too, were they to be restricted to the average of the past three years, many banks would be disabled for meeting the periodical expansion, and obliged to close some of their agencies. The first point was a matter of detail, and judging from the Bill he brought down was soon rejected by the Minister himself.

The question of requiring a fixed reserve was discussed in connection with increased security. So far, the Government had given no indications of a purpose at this revision to require deposits of bonds against the note issue. But as everyone afterwards learned, Mr. Foster was strongly in favor of obliging each bank to hold a sum of specie and Dominion notes which should never be less than 10 per cent. of the amount of its debts. Newspaper writers had favored the proposal as likely to keep such a stock of specie in the bank, that, in case it should fail, there would be still enough for the redemption of notes as fast as they might come in. The rule of a fixed reserve had been adopted by the United States, and a number of the great European banks were subject to restrictions with respect to the proportion of specie held against outstanding notes. For a long time, moreover, four or five of the Canadian banks had incurred just criticism for allowing their reserves, not merely of money, but also of the more liquid assets, to remain below the point which, from the practice of other banks, seemed safe or prudent.

We know that the same arguments against the measure as convinced Sir Francis Hincks twenty years before, were presented to Mr. Foster.[1] The bankers' case was strengthened by reference to the experience of the American banks with such a requirement since 1870. They could point to the repeated violation of the law to which the National banks had been forced, and at which the authorities could only connive. They could show how it induced extreme fluctuations in the interest rate at the financial centres, how it hampered that annual westward movement of currency on which Americans chiefly relied for elasticity in their money system, how it crippled the powers of the banks at critical moments, and caused greater instability in the organization of credit. That the reserve requirement had forced some American bankers to keep a provision for their liabilities approximately adequate, would nowise have damaged the Canadian arguments. The American banks were local, numerous and comparatively small; in not a few cases, either the desire or ability to carry on sound banking was correspondingly slight. In framing the National Bank Act, the elasticity of the currency had been sacrificed for its security, the establishment of a scientific banking system for the success of a financial expedient. That the fixed reserve was of qualified benefit under one system, was no reason for transferring it to another, different in traditions, principle and practice.

In subsequent contention against the proposal of the Minister of Finance, the bankers urged that it was peculiarly unsuited to Canadian conditions. In Canada the customer is expected to keep his account with but one bank. At the beginning of his year he makes a confidential exhibit of his financial condition, and obtains a "line of credit," *i.e.*, the bank's assurance that up to the amount fixed, his position remaining satisfactory, it will find him in funds *as they are needed*. It frequently happens that at no time in the year does the borrower avail himself of the whole of his credit. But the duty "to take care of its customers," places the bank under large obligations to advance money at times which it cannot exactly forecast. Exceptional conditions of trade, unusually late opening of navigation, stringency in the money market, or a variety of other complications, often cause large groups of customers to need the entire amount of their credits, and sometimes a little more, to carry them through. Or again, produce buyers, grain shippers, farmers and dairymen require of the bank enjoying their custom, larger advances at one season than at another, and in different years amounts which vary according to the success of the season's work. Or once more, as happened at the time of the Federal Bank's difficulties, it sometimes becomes desirable, nay necessary, to make sudden and heavy outlays of hard cash in order to avert a serious panic.

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[1] George Hague, "Bank Reserves," *Journal of the Canadian Bankers' Association*. Vol. I., p. 107.

Under the law of 1880, all these contingencies could be met by the banks without other disturbance or evil than a temporary reduction of their reserves to a point comparatively low. But with the requirement of a minimum reserve, a bank might be obliged to look out for its cash and let the customer go to the wall. It would be forced to hold a useless amount of money during nine months of the year, or forego accommodating during three months the agricultural industries relying on its support. And in times of impending trouble, the banks would have to choose from the double dilemma, to take the wise and courageous course of forestalling difficulty, and deliberately break the law; or, on the other hand, to maintain their reserves and endure with Mahometan indifference, the harm needlessly suffered by themselves and by the country.

Such were the arguments used by the bankers against an arbitrary fixed reserve. As a better scheme, they proposed the formation of a safety fund, under regulations very like those ultimately adopted by the Government.

But Mr. Foster was not convinced by their arguments. The representatives of the chartered banks then appealed to the Privy Council for a hearing. This was accorded, and on the 22nd February, the eighteen members of the Government assembled to be addressed by the representatives of the chartered banks, for whom Messrs. George Hague, B. E. Walker and Thomas Fyshe acted as spokesmen, the burden of the argument being sustained by Mr. Walker.[1] Once again, their case against an arbitrary reserve was argued, and at this trial the bankers won. The resistance they had offered to the measure was earnest, strenuous, united. It may have been selfish, but it was a case where the interest of the banks was that of the people. Defeated in the Council Chamber, they would, no doubt, have raised the issue in Parliament, fought it through the press, and carried it before the country. Fortunately, however, the banks had no need to use their excellent organization and wide influence in a general election. Sir John Macdonald, and his colleagues, adopted the views presented by the bankers, and the Bill which Mr. Foster proposed to the House of Commons on the 20th March, 1890, contained no mention of a fixed reserve.

§ 52.—REFORMS ADOPTED BY PARLIAMENT

The debate upon this banking measure forms one of the most admirable chapters in the history of Canadian legislation. The description noway implies that former discussions in the House of Commons were marred by extreme ignorance or excessive partizanship; since the Dominion Parliament first met, its action upon matters relating to banking has been open to no such criticism. But now a Bill, to which long study and the attention of the ablest experts in Canada had already been given, was presented to a House comprising many of the first men of the country in law, commerce, and public life. Using all the resources of their rich experience and excellent theoretical equipment, they took up the question without a trace of party feeling, and earnestly, ably, thoroughly worked to bring the Bank Act as near as might be to the perfection of a scientific ideal.

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[1] The *Week*, Toronto, 29th September, 1893, "A Bit of Canadian History." An account of the argument before the Privy Council by J. T. P. K., a Halifax Bank Manager.

As he presented the Bill, the Minister of Finance reviewed the banking legislation in force at different times since 1867, and outlined the objections held by the Government to the several plans suggested for the revision. The first, for the Dominion to assume the whole of the circulation, involved with the duty of redemption, responsibilities too difficult, delicate and dangerous. The second, for the Government to guarantee the circulation to the country, require the banks to deposit debentures with them for a certain percentage of their issues, and to retain the first lien against their assets, would place the Government under a heavy contingent liability, which they might not at all times be able to meet. The third plan, to require bond security for the whole circulation, was inexpedient; it would reduce the capital used for the progress and development of the country. The fourth plan, the plan which the Government had adopted, was to keep the existing system, but to improve it, obviate the objections and difficulties, and establish new safeguards.[1]

The fate of the proposal for a fixed reserve was shared to some extent by two other improvements suggested by the Minister of Finance. They were severely criticized in Parliament, and either withdrawn or modified. The one withdrawn was a project for an audit system, not of the Government—but yet compulsory—an audit of the shareholders. The machinery was described by Mr. Foster thus: "The shareholders shall, at their annual meeting, elect two or more auditors; those auditors shall, during the year, have the opportunities which are necessary for an auditing of all the accounts, and all statements; that they shall present this report, and their audit of the Director's report, at the yearly meeting, and that a copy of this shall be lodged with Minister of Finance and Receiver-General." Against this, it was successfully objected that it is impracticable for an auditor to ascertain the value and character of a bank's discounts, that his inspection provides no efficient check, that the public may be lulled into security by unjustified faith in the reliability of the auditor's statement, that inspection is a question for a bank's administration, and not for the Government, and that the audit was an answer to no general demand.

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[1] Debates of the House of Commons, Canada, 1890, p. 2,235, *et seq.*

I. The modified clause originally required from each bank an annual return of dividends unpaid for five years, or balances due to whomsoever in respect to which no transaction had occurred, or on which no interest had been paid during the five years preceding. The statement was to set forth the name and last known address of the shareholder or creditor, the amount due, and the date and agency at which the last transaction took place. Dividends unpaid, and balances unclaimed for three years after the first report on them, were to be paid to the Minister of Finance for the public uses of Canada, subject, however, to the right of a person establishing his claim to the satisfaction of the Treasury Board, to be repaid the principal of the sum due him, and, in case it were payable by the bank, the interest thereon at three per cent. for not more than six years after the transfer of the amount from the bank to the Government.[1]

The argument for the introduction of the provision had been skilfully and strongly prepared by a member of the permanent staff of the Finance Department. It was shown that in India, the Barbadoes, and some of the Australian Colonies, unclaimed balances in certain cases go to the State. Dividends of the Bank of England unclaimed for ten years are applied to the payment of the national debt. In the Cape of Good Hope Colony the law was almost identical with that proposed. The Montreal Board of Trade had adopted resolutions in April, 1889, calling for a return to the Government of unclaimed debts owed by trustees and other depositors. It may have been a popular notion that the banks held vast sums which they never expected to pay, because the existence of the debts being forgotten or unknown, no one would come to collect them. The Government certainly believed that the heirs of persons who were moved away from the place where they made the deposits or subscribed to stock, were often prevented from enforcing their rights by ignorance of their existence. As a matter of fact, page after page of accounts in the bank ledgers show balances ranging from one cent to ten dollars, with the majority of sums less than two dollars. Every effort to close them up having been unsuccessful, the banks were obliged to carry forward the accounts from folio to folio, in order to balance the books. As debts due to customers or proprietors, no bank would have dared to plead the statute of limitations against just calls for payment of these balances. The entire indebtedness of the chartered banks, either on account of unpaid dividends or unclaimed balances, was only $300,523 in 1891.[1]

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[1] Bill No. 127, 1890, An Act respecting Banks and Banking, 89, (1-3).

The plan of the Government was rather roughly welcomed. It was opposed as a scheme to alter the devolution of personal property and an invasion of the rights of the provinces.[2] But Sir John Thompson defended its constitutionality by the same principles as were later approved by the Judicial Committee of the Privy Council in Tennant *vs.* the Union Bank.[3] Others insisted that the banks were good enough trustees of the money, and that there was no reason for their transfer to the Government. Save the observance of foreign precedents, all but the fiscal purposes of the clause could be gained by simply requiring each bank to report to the Government by the 20th January in each year, the amount of unpaid dividends and unclaimed balances with respect to which no transaction has occurred. or on which no interest has been paid during the five years preceding. This view was accepted, and the clause, while still requiring complete details, was amended to conform to it. (53 Vic., cap. 31, § 88, 1-3.)

With the exception of four or five admirers of the American banking and currency legislation,[4] the members of the House of Commons did not object so strenuously to the other banking proposals of the Government.

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[1] This excludes $146,705, owed by two chartered savings banks in the Province of Quebec, and it includes the $75,200 owed by the Bank of Montreal.

[2] Debates of the House of Commons, Canada, p. 3,816, Remarks of Mr. Edward Blake.

[3] *Cf. Journal of the Canadian Bankers' Association*, Vol. I., p. 201.

[4] Mr. White, Cardwell, hoped that banks securing circulation by deposits of Dominion bonds would be exempted from the requirements of the Bank Circulation Redemption Fund. *Ibid*, 3,817.

Mr. Casey, West Elgin, moved "that the Government should issue or guarantee the absolute soundness of all paper currency issued or circulated as money," p. 189.

Sir Donald Smith, Montreal, wished a "thoroughly secured currency," p. 3828. This remark should be read in connection with his speech, as President, to the shareholders of the Bank of Montreal, in June, *supra*, 144.

Mr. Hesson, North Perth, believing that no security is as satisfactory to the people as that of the Government, wanted a national currency, p. 3,838.

The principal reform, chief by reason of its novelty, efficacy, and consequences, was the formation of the Bank Circulation Redemption Fund, by which to guarantee the payment of the notes of any failed bank within sixty days of its suspension, and with interest at 6 per cent. per annum, from the day of failure to the day of redemption. This fund, which first reached its normal amount in July, 1892, was contributed by all the banks, each depositing with the Minister of Finance before the 15th July, 1891, a sum of money equal to 2½ per cent. of the average amount of its notes in circulation during the preceding twelve months, and such further sum before the 15th July, 1892, as was necessary to make the total contribution of each bank equal to 5 per cent. of the average amount of its notes in circulation during the twelve months preceding the last date named. The purpose of the fund, in brief, is wholly to prevent discount upon bank notes, whatever the condition of the bank which issued them ; that is, to make the security of the Canadian currency indisputable, permanent, complete. The means are best described in the careful language of the Act itself.

> § 53. The payment of the notes issued or re-issued by the bank and intended for circulation, and then in circulation, together with any interest paid or payable thereon as hereinafter provided, shall be the first charge upon the assets of the bank in case of its insolvency ; * * * *
>
> § 54. (4) 'The Bank Circulation Redemption Fund,'— * * shall be held for the following purpose, and for no other, namely : In the event of the suspension by the bank of payment in specie or Dominion notes of any of its liabilities as they accrue, for the payment of the notes then issued or re-issued by such bank, and intended for circulation, and then in circulation, and interest thereon ; and the Minister of Finance and Receiver-General shall, with respect to all notes paid out of the said fund, have the same rights as any other holder of the notes of the bank :
>
> (5) The fund shall bear interest at the rate of three per cent. per annum, and it shall be adjusted, as soon as possible after the thirtieth day of June in each year, in such a way as to make the amount at the credit of each bank contributing thereto, unless herein otherwise specially provided, equal to five per cent. of the average note circulation of such bank during the then next preceding twelve months :
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> (6) The average note circulation of a bank during any period shall be determined from the average of the amount of its notes in circulation, as shown by the monthly returns for such period made by the bank to the Min-

ister of Finance and Receiver-General; and where, in any return, the greatest amount of notes in circulation at any time during the month is given, such amount shall, for the purposes of this section, be taken to be the amount of the notes of the bank in circulation during the month to which such return relates:

(7) In the event of the suspension by the bank of payment in specie or Dominion notes of any of its liabilities as they accrue, the notes of such bank, issued or re-issued and intended for circulation, and then in circulation, shall bear interest at the rate of six per cent. per annum, from the day of such suspension to such day as is named by the directors, or by the liquidator, receiver, assignee or other proper official, for the payment thereof,—of which day notice shall be given by advertisement for at least three days in a newspaper published in the place in which the head office of the bank is situate; but in case any notes presented for payment on or after any day named for payment thereof are not paid, all notes then unpaid and in circulation shall continue to bear interest to such further day as is named for payment thereof,—of which day notice shall be given in manner above provided: Provided always, that in case of failure on the part of the directors of the bank, or of the liquidator, receiver, assignee or other proper official, to make arrangements within two months from the day of suspension of payment by the bank as aforesaid for the payment of all of its notes and interest thereon, the Minister of Finance and Receiver-General may thereupon make arrangements for the payment of the notes remaining unpaid, and all interest thereon, out of the said fund, and shall give such notice of such payment as he thinks expedient, and on the day named by him for such payment all interest on such notes shall cease, anything herein contained to the contrary notwithstanding; but nothing herein contained shall be construed to impose any liability on the Government of Canada or on the Minister of Finance and Receiver-General beyond the amount available from time to time out of the said fund:

(8) All payments made from the said fund shall be without regard to the amount contributed thereto by the bank in respect of whose notes the payments are made; and in case the payments from the fund exceed the amount contributed by such bank to the fund and all interest due or accruing due to such bank thereon, the other banks shall, on demand, make good to the fund the amount of such excess, *pro ratâ* to the amount which each bank has at that time contributed to the fund; and all amounts recovered and received by the Minister of Finance and Receiver-General from the bank on whose account such payments were made shall, after the amount of such excess has been made good as aforesaid, be distributed among the banks contributing to make good such excess *pro ratâ* to the amount contributed by each: Provided always, that each of such other banks shall only be called upon to make good to the said fund its share of such excess, in payments not exceeding in any one year one per cent. of the average amount of its notes in circulation,—such circulation to be ascertained in such manner as the Minister of Finance and Receiver-General decides; and his decision shall be final:

(9) In the event of the winding up of the business of a bank by reason of insolvency or otherwise, the Treasury Board may, on the application of the directors, or of the liquidator, receiver, assignee or other proper official, and on being satisfied that proper arrangements have been made for the payment of the notes of the bank and any interest thereon, pay over to such directors, liquidator, receiver, assignee or other proper official, the amount at the credit of the bank, or such portion thereof as it thinks expedient:

(10) The Treasury Board may make all such rules and regulations as it thinks expedient with reference to the payment of any moneys out of the said fund, and the manner, place and time of such payments, the collection of all amounts due to the said fund, all accounts to be kept in connection therewith, and generally the management of the said fund and all matters relating thereto:

(11) The Minister of Finance and Receiver-General may, in his official name, by action in the Exchequer Court of Canada, enforce payment (with costs of action) of any sum due and payable by any bank under the provisions of this section. (53 Vic., cap. 31.)

As complements to the safety fund thus established, action was taken in response to the second and third general demands for reform.

III. It was required that each bank shall make arrangements to ensure the circulation of its notes at par, in all parts of Canada, and towards the purpose it shall establish agencies for the redemption and payment of notes at the commercial centre of each Province, viz., Halifax, St. John, Charlottetown, Montreal, Toronto, Winnipeg and Victoria. (51 Vic., cap. 31, § 55.) Under the Suffolk system, a redemption office in Boston was found sufficient to prevent the discount on "foreign bank notes" from any part of New England,[1] and the redemption agencies of the Dominion Government at the provincial capitals had kept the notes of the Dominion at par. There was no reason why a similar arrangement should not have like effect on the notes of the chartered banks. The requirement of redemption also removed an element of danger which the establishment of a fund might otherwise have introduced. Having received increased credit from it, the notes were likely to remain in circulation longer, and it was necessary to counteract the qualified tendency toward inflation by improving the facilities for redemption.

IV. Banks going into liquidation under a general winding-up Act, or becoming insolvent, were not only deprived of the benefits originally enjoyed under the statute of limitations, but were obliged to yield to the Government whatever advantages may still be had by solvent banks from the loss or destruction of notes.[1] Moneys which are payable by the liquidator to shareholders and depositors, and which have remained unclaimed for three years after the suspension or beginning of the winding-up, or until the winding-up is complete, if that occurs before the expiry of three years from the time it is begun, are required to be paid to the Minister of Finance. He holds them subject to the claims on behalf of any person other than the bank. Such claims being established to the satisfaction of the Treasury Board, the moneys are repaid to the person entitled to them. If interest was payable by the bank, the Minister of Finance also pays interest at three per cent. for not more than six years from the date he received the unclaimed balances. (§ 88, (4).)

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[1] D. R. Whitney, "The Suffolk Bank;" Cambridge, 1878, pp. 46, 60.

By a similar provision, it was enacted that the liquidator shall, before the final distribution of assets, or within three years of the date of suspension or winding-up Act, pay to the Minister of Finance a sum equal to the amount of the notes of the bank intended for circulation, and then outstanding. The bank and its assets are then relieved from further liability upon its notes, as the Minister of Finance is required to apply the sums so received to the redemption of the bank's notes as they are presented, without interest. (§ 88, (5).) The first provision was explained as *solatium* for the Minister's previous concessions in the matter of unclaimed balances. By this, together with the exception of a solvent bank's debts from the statute of limitations, and the requirement that the amounts and owners of unclaimed balances shall be published, the purposes of his original proposal were pretty well attained. The justice of the second requirement is manifest. Without it, the stray notes that were slow to come in would be a charge upon the funds contributed by the other banks. The bank whence they issued was obliged to take care of its outcast children—foundlings the other banks refused to rear.

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[1] The profit from notes lost or destroyed, has no such importance as the public commonly impute to it. The practice of hoarding savings in bank notes is practically obsolete in Canada. A person may as well trust a bank in another way and get interest on his credit, *i.e.*, by making a deposit. So the possibility that notes thus held may be destroyed by fire or what not, has no bearing on the question. The loss by accident, theft, robbery, etc., also has no effect on the bank. Its debt simply falls into other hands; the evidence of it still exists. The only possibility of profit lies in the complete destruction of notes, or such loss as makes recovery by whomsoever, utterly impossible. There are, it is true, quantities of notes which for some time disappear from active circulation, for so long, in fact, that an inexperienced observer would think they must have been lost. It was this tardiness in coming back for redemption of which winding up Acts enabled banks in liquidation to take advantage, and it was the extinction of the holder's claim on such paper that prompted the second general demand for reform above noted. In former years the board of many a bank still in existence, have decided, after profound and solemn deliberation, to write off a certain amount from the issue account for destroyed notes which they never expected to see again, and to add the same to the credit of profit and loss. Subsequently, they have been obliged, somewhat more solemnly, we may safely say, to write the amount back again. The notes supposed to be lost persistently returned for redemption. Banks which have taken over the business of other banks, have been called on to redeem more notes of the amalgamated banks than were outstanding when the union occurred. Figures furnished me by bankers, show that of the one and two dollar notes in circulation on the 3rd June, 1871, less than one per cent. are still outstanding. Of the four dollar notes in circulation on the 30th June, 1881, which the banks were instructed thereafter to call in, less than two per cent. are outstanding, the proportion unredeemed being as low as 1.3 per cent. in some cases, and in others less than .2 per cent. For some banks, we may say that the interest on the amount of destroyed notes might, possibly, pay the mere cost of printing involved in the maintenance of a circulation. The experience of many others would not warrant the statement that there is any appreciable gain through the destruction of notes not presented for redemption.

Four effects of the Bank Circulation Redemption Fund and the complementary requirements deserve immediate mention. First, the united credit of all the banks of the system was placed back of the currency issued by any one of them. Second, the interest of six per cent. on the notes of a failed bank provided an incentive for the liquidator promptly to redeem them ; it was an inducement to solvent banks to receive them from their customers, and it was a protection to all holders from loss. Third, it made it impossible that the notes of a failed bank should fall below par, for besides the liability of the shareholders and of the assets of the issuing bank, there was pledged to their redemption within sixty days at 101, an accumulated and available fund of over $1,800,000. Fourth, the bank note currency of Canada acquired a thoroughly national character ; since 1890 it has circulated from one end of the country to the other, never causing loss to the holder, yet keeping unimpaired the qualities for which, in its less perfect state, Canadians had again and again refused to give it up.

The origin of the measure is more difficult. The plan had been quietly worked out by an Ottawa banker in the summer of 1888 ; it had occurred about the same time to a banker in Toronto as an excellent modification of the New York Safety Fund, the device of which Millard Fillmore said, "It is therefore apparent that the Safety Fund would have proved an ample security to the bill holder, had it not been applied to the payment of other debts of insolvent banks than those due for circulation."[1] On the other hand, the Minister of Finance has kindly assured me that it was no adaptation, but quite an independent Canadian development, designed to meet Canadian needs. And I am informed that after the bankers laid before him their plan for a "Security Fund," as it was first termed, Mr. Foster told them that the scheme was about what he had thought of.

Upon such high and diverse evidence, one cannot be expected to determine the original invention of this excellent feature of the present Bank Act. A safe theory, doubtless, is that of a contemporaneous invention by several persons more or less influenced, though not always consciously, by the reminiscences of the New York Safety Fund system still frequent in discussions of banking, and by the knowledge of the fund for the redemption of National bank notes kept in the United States' Treasury under somewhat analogous regulations.[2] Mr. Foster did not adopt the plan exactly as the bankers suggested it. There was no maximum established in his bill for the amount which a bank might be obliged to contribute to the fund within the course of a year. The representatives of the Bank of Montreal very properly objected to the proposal in this form, for under certain circumstances, as they conceived, their bank might be involved in a liability limited only by the circulation of the other banks in the Dominion and its own ability to pay.[3] The Government consented to remove the dangerous feature, and in Committee of the Whole the amount payable by a bank within a year was fixed at one per cent. of its circulation. This provision for maintenance was believed to be quite ample. The experience of twenty-three years showed the improbability of one of the overwhelming banking catastrophes, without which a long impairment of the fund would be impossible.

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[1] Report of the Comptroller of the State of New York, 1849, p. 29.

[2] To trace the origin of the plan in the State of New York, it will be necessary to revert to the legislation of 1829 by which the "Safety Fund" was first established. The first proposal of the scheme must be ascribed, not to the Governor at that time, Martin Van Buren, but to one Joshua Forman, whose suggestions the Governor merely recommended to the Assembly. The real author describes the origin of the plan thus, "The propriety of making the banks liable for each other was suggested by the regulation of the Hong merchants in Canton, where a number of men, each acting separately, have by the grant of the Government the exclusive right of trading with foreigners and are all made liable for the debts of each in case of failure. The case of our banks is very similar; they enjoy in common the exclusive right of making a paper currency for the people of the State, and by the same rule, should be in common answerable for that paper. This abstractly just principle which has stood the test of experience for over seventy years, and under which the bond of a Hong merchant has acquired a credit over the whole world not exceeded by that of any security, modified and adapted to the milder features of our republican institutions, constitutes the basis of this system." *Vide* VAN BUREN, "Message, made to the Assembly, January 26th, 1829," Albany, 1829.

[3] GARLAND, *op. cit.*, p. 308.

V. The fourth criticism remarked in § 50 was met by requiring from each new bank subscriptions to $500,000 of its stock and payment of $250,000. No new bank is permitted to begin its business or issue notes until $250,000 of the capital shall have been deposited in specie with the Minister of Finance for a period of at least four weeks, or until a certificate permitting it to do so shall have been issued by the Treasury Board. The certificate may not be granted until they are satisfied that the requirements as to capital payment, election of directors, etc., have been complied with, nor after twelve months from the day on which the Act of incorporation came into effect. (53 Vic., cap. 31, §§ 10, 13-16.)

VI. The payment of any amount due to the Government of Canada, in trust or otherwise, was made the second charge on the assets of an insolvent bank, and any amount due to the Government of any of the provinces a third charge, the note holder being still assured the first right of preference. (The Bank Act, § 53.) This was merely the embodiment in the Bank Act of the Crown priority at English common law. The Minister of Justice, Sir John Thompson, explained the action thus: "We seek to put it on the face of the Bill, first, because we are endeavoring to adopt an Act with respect to banks and banking, which will embody as much of the common law, as well as of the statute law, as we can conveniently embody in a Bill of this kind; second, in order that the public shall know what the law is with respect to the rights of the Government, what the rule is that prevails with respect to the prerogative of the Crown in relation to its debts."[1] The law was not the same in the different provinces, and although the attempt to enforce it in order to the recovery of deposits with the Maritime Bank was successful, the Quebec courts had declined to sustain the prerogative in a suit at the civil law of that province. Some objected that the priority would diminish the security afforded to the depositor. The Minister, in justifying the prerogative, inquired, "Is it not vain to talk about the necessity of private individuals trusting the banks of the country? They trust them for their own accommodation, for their own business and profit." "We are collecting revenue in Canada under the authority of this Parliament, over a wide extent of country, by a large army of officers of the Customs and Inland Revenue, from penalty collecting officers, from magistrates who collect penalties due to us, from agents collecting moneys to be applied to the Crown, and the only hands we have for the receipt of this revenue, or of any moneys payable to the Crown, are the banks wherever they are established. It is impossible that officers * * * * can have vaults of their own in which to store money. We must resort to the banks, not only for the convenience of making deposits, but for transmission, and to that extent, necessarily, the Government is an involuntary creditor of all those institutions—those banks which are the creatures of this Parliament and of this Government. * * * Perforce we are obliged to avail ourselves of these monetary institutions; and the same privilege should be given to the Crown in regard to its moneys, as is given to the Crown in regard to the discharge of the duties of its officers, for the very analogous reason that the Crown, being obliged to discharge its functions of government by a great army of officers throughout the country, is relieved of responsibility for the negligence of its officers."[1] Others denied the application of the remarks to the provinces, which had no such difficult task in collecting their revenue. Mr. Weldon acutely noted the distinction between the Crown priority for moneys collected as public revenue, and for money which the Government chooses to loan to a bank in order to obtain interest. Sir John Thompson refused to accept the distinction, in replying, "The Government stands in precisely the same relation with regard to large classes and sums of money (not revenue), as it does in relation to revenue, such as security from contractors, and deposits from insurance companies." The result of such a distinction would be that the Government could not distribute the funds in its keeping and spread the risk, while at the same time preserving a lien. Sir John Macdonald remarked that "the banks, no doubt, would infinitely rather run the liability than lose the Government deposits. A bank is at liberty to post a notice saying it will not receive Government deposits on the second lien footing. But the shareholders would say, at the next meeting, that the Directors had thus injured the bank's standing and prestige." It is apparent that the criticism of Mr. Weldon was evaded rather than refuted. His remark applied to the case of Government assistance to a bank, whether for the public good, or the advantage of the Government's friends.

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[1] Debates, 1890, p. 3,966.

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[1] *Ibid* pp. 3,966, 3,967, 3,975.

In a debate upon bank inspection, occurring in 1885, Sir John Macdonald had stated the Government's policy thus: "It is sometimes in the interests of the Government (and the Government have no interest except that of the public) to strengthen banks by making deposits. It has been, in my experience, looking back, found requisite or expedient by several Governments, in times of great depression, to prevent universal ruin, universal panic, to come to the help of some of the bank institutions. Governments have on occasion prevented universal panic by acting in concert with strong banking institutions, in helping to sustain banks which were not quite so strong."[1] The certain establishment of the right of the Crown to preference, tends, it would seem, to induce a Government to assist a weak bank, particularly when they are unduly pressed, and there are good chances of bringing it safely out by that means. But since one or two painful experiences, the Governments of Canada and of the provinces have been chary of being caught in a failed bank. In stormy times the funds of the State appear to desert the frailer craft, to seek safety in the staunchest and strongest of the banks. The attitude of the people was clearly indicated after the Exchange Bank failure. Politicians will not willingly provoke a like explosion of criticism. Public opinion is a mighty corrective for any such abuses as granting loans or unduly heavy deposits to a favored bank, but in the later years of Canadian banking its effect has been potential. The need for its active exertion has not arisen.

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[1] Debates, House of Commons, 1885, p. 85.

VII. By a seventh series of new clauses, the loaning powers of the bank were extended, the law as to warehouse receipts, etc., recast, and the proceedings under it simplified. The principles already recognized that a bank may advance money in certain cases to aid in the manufacture of goods, and may keep its claim on the material security during and after transformation from the raw material to the finished product, were made general in the following clauses:

"§ 74. The bank may lend money to any person engaged in business as a wholesale manufacturer of any goods, wares and merchandise, upon the security of the goods, wares and merchandise manufactured by him or procured for such manufacture:

"2. The bank may also lend money to any wholesale purchaser or shipper of products of agriculture, the forest and mine, or the sea, lakes and rivers, or to any wholesale purchaser or shipper of live stock or dead stock, and the products thereof, upon the security of such products or of such live stock or dead stock and the product thereof:

"3. Such security may be given by the owner and may be taken in the form set forth in Schedule C to this Act, or to the like effect; and by virtue of such security, the bank shall acquire the same rights and powers in respect to the goods, wares and merchandise, stock or products covered thereby, as if it had acquired the same by virtue of a warehouse receipt.[1]

"§ 76. If goods, wares and merchandise are manufactured or produced from the goods, wares and merchandise, or any of them, included in or covered by any warehouse receipt, or security given under section seventy-four of this Act, while so covered, the bank holding such warehouse receipt or security shall hold or continue to hold such goods, wares and merchandise, during the process and after the completion of such manufacture or production, with the same right and title and for the same purposes and upon the same conditions as it held or could have held the original goods, wares and merchandise."

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[1] Following is the form given in Schedule C.:

In consideration of an advance of dollars, made by the (*name of bank*) to A. B., for which the said bank holds the following bills or notes (*describe fully the bills or notes held, if any*), the goods, wares and merchandise mentioned below are hereby assigned to the said bank as security for the payment, on or before the day of of the said advance, together with interest thereon at the rate of per cent. per annum from the day of (*or* of the said bills and notes, or renewals thereof, or substitutions therefor, and interest thereon, *or as the case may be.*)

This security is given under the provisions of section seventy-four of "The Bank Act," and is subject to all the provisions of the said Act.

The said goods, wares and merchandise are now owned by and are now in possession, and are free from any mortgage, lien or charge thereon (*or as the case may be*) and are in (*place or places where goods are*), and are the following: (*particular description of goods assigned*).

Dated at 18 .

The word "manufacturer" was extended to include "maltsters, distillers, brewers, refiners and producers of petroleum, tanners, curers, packers, canners of meat, pork, fish, fruit, or vegetables, and any person who produces by hand, art, process or mechanical means any goods, wares or merchandise." (§ 2. (*f*).)

The new clause made it possible to dispense with the legal fiction by which the bank was allowed to lend directly on the security of goods by taking a warehouse receipt or bill of lading therefor from any person engaged in the ostensible business of keeper of a yard, cove, wharf, or harbor, or of warehouseman, miller, sawmiller, maltster, manufacturer of timber, wharfinger, master of a vessel or other carrier by land or by water, or by both, curer or packer of meat, tanner, dealer in wool, or purchaser of agricultural produce, even though the grantor of the document was the owner of the goods. Provision for making such advances directly was now supplied by § 74, without the rather clumsy device of dividing the borrower into two persons in order to his concluding a transaction with himself. Henceforth, persons owning the goods could not grant a warehouse receipt or bill of lading for them. The acquisition and holding of the warehouse receipt, bill of lading, or the security above described, are forbidden the bank, unless the debt which these secured is negotiated at the same time as they are taken, or upon the written promise that such security will be given the bank. Renewals of loans thus made can be granted without affecting the security. The bank may surrender a warehouse receipt for a bill of lading, and *vice versa ;* it retains the prior lien over the unpaid vendor ; it may sell the goods on non-payment of the debt without the consent of the pledgor, but must dispose of them at public auction, after due advertisement, and in the case of timber or lumber, must give thirty days' notice of the sale, by registered letter to the pledgor, and in case of other goods, etc., ten days' notice. The penalties for misdemeanor and not more than two years' imprisonment, are established for giving false receipts, etc.;

for alienation of the goods described in the instrument, by the bailee, before the debt is paid and without the consent of the bank given in writing ; or for withholding from the bank possession of the goods after default has occurred in payment.

We have here the last stage of a development outlined in Parliament, thus :

(*a*) only the bailee gives a warehouse receipt ;

(*b*) warehouseman gives a receipt for his own goods ;

(*c*) abatement of the requirement that the grantor of the receipt should be a warehouseman.[1] The new principle was defended by Sir John Thompson as a measure for the convenience of manufacturers and producers, and the security of the banks. It was calculated to enable those carrying large stocks in course of manufacture to get the support of the banks on the same terms as are made to other applicants for unexceptionable advances.

As first brought down, the bill authorized the bank to loan on the security given by any person engaged in business as a wholesale manufacturer or producer of goods, wares and merchandise. The expression " producer" was criticized as including the farmers, whose general credit with merchants and others rests largely on the visible possession of certain personal property,—such chattels as grain, cattle, and implements. An assignment of these according to the form prescribed by the Act, would not, like a chattel mortgage, become notorious, and the basis of the farmer's credit would be badly impaired, no creditor being able to know whether the ownership of property is in the person whom he is asked to trust, or in some bank. Many farmers, moreover, wish not to borrow on the personal security, but to retain and use it as a basis for credit in ordinary transactions. The security afforded to the bank would be partly fictitious, for between a bank and a farmer there are almost no such opportunities to watch the proceedings of a debtor, to enjoy his confidence, and to meet him in daily transactions, as there are between a bank and a manufacturer, miller or produce shipper. As the Government had no intention of including farmers, the objectionable phrase was expunged.[1]

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[1] Debates, 1890, pp. 4,279 *et seq.*, Remarks of Mr. Blake.

The debate aroused some of the champions of the farming interests against private money-lenders, and the expense of borrowing on mortgage, but they were well answered by Mr. Blake :

> "You have had the proposition for a land bank, the proposition for a farmers' bank, the proposition for a National currency based upon land or irredeemable currency, you have had numerous proposals to help the farming community to cheap and easy money, but the conditions upon which cheap and easy money are to be obtained are absolutely opposed to the principles which, in regard to the production and manufacture of goods, are found to be sustained by this House and by this country, at the present day. * * * * The moment the farmer can show that he can give the same prospect of a return, with the same advantage, with the same security that other competitors for the stock of available money can give, he will get all the money he wants ; and to the extent he cannot show that, he never will get it."[2]

VIII. In the work of revising and consolidating the Bank Act, and in putting into statute form as much as possible of the common law on the question, a number of slighter changes were made. Among the new features of the Act, one finds that each director of the bank shall hold *paid-up* stock to the amount of

$3,000 when the paid-up capital of bank is $1,000,000 or less.
4,000 " " " " between $1,000,000 and $3,000,000
5,000 " " " " over $3,000,000.

In deference to the convenience of banks near the north-eastern frontier of the United States, only a majority of the directors of a bank were required to be British subjects. Its shareholders were permitted to increase or decrease the stock of the bank by by-law passed in general meeting, provided that no such by-law should come into effect until approved by the Treasury Board. The amount at which the rest must stand before division of profits exceeding 8 per cent. per annum are allowable, was raised from 20 to 30 per cent. of the paid-in capital stock. The privileged lien enjoyed by the bank on shares of its stock held by debtors was retained ; in case of default, the bank was commanded to sell the shares, after notice, within twelve months after the debt is accrued and become payable. The entire exemption from all penalties upon usury was retained, and the banks allowed to take in advance any rate of interest up to seven per cent. A higher rate is not forbidden, though it is not recoverable. The liability of banks to repay moneys deposited with them, and to pay dividends declared and payable on its capital stock, was declared to continue, notwithstanding the statute of limitations. The liability of the transferor was made to continue, saving his recourse against the transferee, on all shares in the bank, the transfer of which is registered within sixty days of the bank's suspension. The former period was thirty days. Besides the monthly return, banks are obliged to make special returns whenever called on so to do, and to furnish an annual list, duly certified, of their shareholders, places of their residence and amount of stock held by each. The making of false returns or wilful concurrence therein is an offence against the Bank Act. The use of the titles " Bank," " Banking House," etc., without authority under the Bank Act, was made an offence against it, whether or no the expression " Not Incorporated " is added. Persons committing an offence against the Bank Act are liable to a fine, not exceeding $1,000, or imprisonment not exceeding five years, or both. Finally, the penalties against circulation in excess of paid-up capital were increased in severity. To the absolute consideration of making them more effective was added the necessity of protecting the contributors to the fund guaranteeing the bank note currency. For issue exceeding the amount of the paid-up capital by not more than $1,000, the fine imposed is equal to the amount of the excess. Where issues exceed the amount of paid-up capital by

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[1] *Ibid* 4,279, 4,308, Sir J. Thompson, Sir D. A. Smith, Sir R. J. Cartwright, and Messrs. Blake, Kirkpatrick, Sproule, Landerkin, Daly, Watson, Waldie and Mitchell.

[2] *Ibid*, p. 4,295.

	$ 1,000	to	$ 20,000	the fine is $	1,000 ;
for excess between	20,000	and	100,000	"	10,000 ;
" "	100,000	"	200,000	"	50,000 ;
" over	200,000			"	100,000.

The reforms adopted by the Canadian Parliament in the session of 1890, and embodied in the "Act respecting Banks and Banking" (53 Vic., cap. 31), are the last Canadian legislation with which our historical study is concerned. This forms the present banking law of the Dominion, common and uniform for every province from Prince Edward Island to British Columbia. The corporate lives of the thirty-six banks working under Canadian charters, were continued by the Act of 1890 to the 1st July, 1901; means were provided for bringing the Merchants' Bank of Prince Edward Island under its operation, the special features of La Banque du Peuple were again confirmed, and the two banks working under Royal Charter, the Bank of British North America and the Bank of British Columbia, were given the same privileges, and subjected, with but few exceptions, to the same restrictions and duties as their competitors of cis-atlantic origin. From the last and in some respects the most significant of a long series of statutes dealing with banking, we may properly turn to a brief review of the leading facts to tracing which these pages have been devoted.

§ 53.—SUMMARY AND REVIEW

I. Three facts have usually appeared as precedent to the incorporations granted by the Legislatures of the British North American Colonies to joint-stock banking companies; the lack of a satisfactory circulating medium, the enterprise of private capitalists, and the desire of the Legislature to facilitate assistance to the commerce and agriculture carried on by their constituents. The banks thus chartered secured the right to perform, within the Legislature's jurisdiction, all the functions pertaining to banking in its full and free development, and to carry on their business with very few restrictions. As in the legislation which first governed them, British precedents were followed, so their practical banking was a copy in many respects of British banking Scotch examples being specially affected in Lower Canada. And as in Scotch banking, the simple principle of paying debts in specie on demand, enforced by mutual competition of the banks, and sanctioned as it was by the capital punishment of charter forfeiture, proved a conserving factor of great power, little noticed by the public, no doubt, but constant and relentless in its operation. Down to 1850, if we except the season of banking agitation in Upper Canada preceding the crisis of 1837, there seems to have been very little originality among the colonists in regard to their banks. A new charter was granted from time to time, and the old ones renewed, but the new restrictions embodied in the legislation were of British origin, opposed in most cases by Legislatures as well as the banks, and adopted only after peremptory instructions from the Colonial Office in Downing street. It was through these authorities also that the antidote was provided for the leading example of perverted activity in currency regulation and the establishment of banks—the Upper Canada banking mania of 1833 to 1837.

In 1850, however, hard times, one or two persevering agitators, and about the same number of self-confident theorists, induced the law makers of Canada to try a system of banking quite alien in principles to those by which the eight existing banks were governed, and performed their functions. The effort was proven hopeless in four years, the plan having lost on its faults. The Legislature gave up the new and returned to the old lines in the provision then made for increasing the number of banks. At the same time the Provincial Government enlarged on the policy of exploiting the banks, begun by the circulation tax of 1841, by requiring new banks, and those whose capitals were increased, to invest a part of their capital in debentures of the province. The earliest real reforms of unquestionably Canadian invention are met in 1859, when the first measures respecting warehouse receipts were passed at the suggestion of the banks. On three occasions the character of the currency was menaced by change; in 1841, when Lord Sydenham's proposals for a bank of issue were overcome largely through the influence of the vested interests; in 1860, when the maiden effort of Sir A. T. Galt at currency regulation was presented, but was rejected for its preposterous nature; in 1866, when their friends and the friends of sound policy successfully resisted that part of the same Minister's project by which the banks were to be deprived of the right to issue their own notes. The local Legislatures passed the laws, that is understood, but we may say—without, however, that minute inquiry into causes which may prompt criticism for *a priori* speculation—that for the body of legislative restrictions under which Canadian banks were working in 1867, British precedent (by that is meant Scotch as well as English) and Imperial regulation were chiefly responsible. The same remark applies with almost equal force to Nova Scotia and New Brunswick bank charters.

For whatever of soundness or of weakness there was in their practice, the banks, of course, had to praise or blame themselves and the conditions where they worked. Those conditions were such that men thought the development of the country, the opening of its resources, the first, practically, of all economic considerations. Toward these, the Canadian banks rendered yeoman service, increasing their capital, and extending their field of operation as fast, probably, as the growth of the country warranted. The great Bank of British North America, which had entered all the provinces in 1837, rendered incalculable benefit to colonial development by liberal administration of the one million pounds sterling which formed its capital ; to colonial banking by the conservative character of its management, and by the sound banking traditions brought by its officers from the schools of their training, the Scotch and English banks. In 1869 the chief offices of eleven Canadian banks were filled by sometime employes of the Bank of British North America. The practice of commercial banking, to which the Bank of Montreal had steadily adhered, was not without its influence. It was a simple principle, but usually trustworthy, viz., to require that the paper on which loans are granted shall represent an exchange of commodities, or an increase of commodities. At the last, because, perhaps, it is chief, must be named the fruits of over forty years of local experience. The British North American banks displayed extraordinary stability through the commercial crises and financial panics, which left such serious traces in the United States, but they met their losses, and the warnings of 1837-39, 1848 50, 1857-59 were all for the safe and prudent conduct of business.

The one bank in Canada, which, relying in the prestige of its name and its connection with the Government, followed in the midst of the competition of 1856, the same policy as in the days when alone, autocratic, and all powerful, it dispensed accommodation to Upper Canadian gentry, land speculators, and British factors, soon met its just fate, And subsequent years brought retribution or misfortune to others, so that of the eight banks in Canada in 1851, only four remain; of the five in New Brunswick, three are left. But we should add that it was the shareholders who suffered. In examining the question of the security offered by Canadian banks, it has appeared that, since Confederation, the total loss of principal ultimately suffered by creditors of banks working under Dominion legislation, has been less than $2,000,000. The record for the years preceding 1867 is hardly less admirable, there being no failures in Nova Scotia or Lower Canada, while in New Brunswick the double liability of shareholders saved the banks' creditors, and in Upper Canada the failure of the Bank of Upper Canada was the only one which inflicted considerable loss.

The efficiency of the banks during this period, their services to the country, have received about all the positive description that the subject permits. An opinion might be reached by considering the friction with which their operations were carried on, much as the security afforded is estimated by the loss inflicted, but for this opinion there can be no exact expression. Spread over so long a period, the study might become a justification of banks. With the ethics of the question, we are not concerned; for us it is sufficient that banks are established in almost every community where there is accumulation, commerce and credit. The fact that they get business and pay profits, indicates the need for their services, and their value. In the next chapter, moreover, the important aspects of the question of efficiency ought to appear in an examination of the characteristics, practical working and possibilities of the Canadian banking system as it is now established.

II. In reviewing the history of banking legislation since Confederation, an American is at once impressed by the freedom from partisan purposes or sectional feeling displayed in the treatment of banking questions. Without that freedom, it would have been difficult fairly to weigh the evidence collected by the committees of 1867-69, and the discussion carried on in all parts of the country. Without it, it would have been difficult also to defeat the dangerous and reactionary proposals of the Government in which Sir John Rose was Minister of Finance. Theirs was a strong party, and had the party discipline been perfect, it would have carried the Minister's measures through to the statute book. Three other forces appear to have had a beneficial influence.

(*a*) Competition has quickly exposed weak, careless or untrustworthy management; it has hastened the withdrawal or loss of imprudently invested capital; it has made the conditions of success more severe, and so has immensely increased the necessity for vigilance, caution and care. Especially through the requirement of daily settlements has the stake depending on the constantly liquid character of a bank's assets been indefinitely raised. (*b*) The salutary effect of competition has been aided by the trenchant criticism which the increasing clearness and fulness of the monthly return has facilitated, criticism by each banker upon the others, and by the public upon them all. Public opinion, moreover, has been extremely sensitive to the defects that bank failures have exposed in the established system of safeguards. And after such events as those in which the Mechanics' Bank or the Central and London Banks figured, public demands for reform have been prompt, general and emphatic. (*c*) The third force is in the action of the bankers, particularly at the time of the Bank Act revisions. They, apparently, have been influenced by appreciation of their own privileges, remembrance of certain painful but beneficial experiences in times of depression and trouble, and a desire to remove from the banking system the causes of popular dissatisfaction. Their own suggestions in the direction of improvement, and the reasons they gave for keeping the important features of the bank charters and banking system in force when the Confederation began, have been described at some length. The united efforts of the bankers as individuals, and as representatives of their customers and shareholders, have certainly been productive of some results. Their services will be esteemed according as one approves the banking system which they have helped to preserve.

We cannot rightly conclude as to the attitude of Parliament towards Canadian banking in its national period from the debates alone, or from the numerous projects that have been supported at different times in the House of Commons. As the statesman is judged, not by what he says, but by what he does, so, to a great extent, must we conclude as to Parliament. Its *action* was satisfactorily described by Mr. Foster in 1890: "It seems to have been the purpose of Parliament not to interfere violently with what we may call the natural growth of the banking system in this country." "It also appeared to be the desire of Parliament to hedge around the banking system which then prevailed by severer conditions of charter, by regulations which should be especially restrictive upon the dealings of banks, especially with their own stock, and with the stock of other banks, to foster the laying by of reserve capital, and by a judicious requirement of returns, to perfect the system and render it as safe as possible without interfering voluntarily with the general principles upon which banks had been operated from the earlier time."[1]

One of the strongest contrasts which this whole record presents to such a history of banking as that of the United States, is in the continuity of the progress. There has been no recurring struggle to establish a great Government bank, no epidemic of wild-cat banking, no rejection of one system for experiment with another. A certain continuity, without doubt, can be discovered in the history of any banking system. Men do not wholly break with the past, or build on foundations entirely new. But down to the present day, Canadians have always held to the plan on which were framed the statutes governing their first banks. Additions have been made, new safeguards against public loss introduced, limits restraining corporate activity have been narrowed in some parts and widened in others, a few arrangements for the advantage of the Government have been attached, but never has there been a successful attempt to tear down the fair work of the first builders and out of the ruins construct anew. When defects have appeared in its structure, Canadians have not forthwith condemned the heritage of the past, and petulantly, illogically swept it away to make room for some new, untried affair, arranged on different lines; after study of the trouble they have endeavored by some slight strengthening, some little alteration, to keep and enhance the certain benefits of what they already possessed. The present Bank Act is unquestionably better, more careful, more strongly and scientifically drawn than any previous legislation, the banking practice is more sound—the steady improvement, save with respect to investors' profits, is hardly less remarkable than the continuity discernible in its development—yet the economic character of the functions permitted the banks, and the methods of their fulfilment, are the same under the Dominion system of 1890, as under the Provincial charters of 1821.

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[1] Debates, *ut supra* 1890, pp. 2,235 *et seq.*

CHAPTER X

ON THE PRESENT WORKING OF THE SYSTEM

In following the course of banking legislation in Canada, it has been necessary to give only such occasional reference to questions of banking history and the economic history with which it is interwoven, as was essential to an understanding of the main object of the inquiry. The fourth part of a complete study, so far as it relates to existing conditions, will form the theme of this chapter. It is proposed now to look at the Canadian banking system in its present development, to examine some of the principles of its organization and consider certain of its practical workings.

§ 54.—CHARACTERIZATION OF THE SYSTEM

The group of thirty-eight joint-stock corporations chartered by the Parliament of Canada and now in operation, may be described as a decentralized system of relatively large, joint-stock, commercial and industrial banks, privately owned and managed, but working under a uniform law, and subject to the supervision and discipline of the Dominion Government. They have the power to establish branches. They have the privilege, exclusive as against individuals and other corporations, of issuing promissory notes in denominations of $5 and multiples thereof, for circulation as money ; but they issue them subject to the prior lien of the note holder against the whole of the bank's assets, and the double liability of its shareholders, and under special restrictions as to the immediate and ultimate payment of the notes and their redemption at par at various points throughout the country. They have the usual powers to carry on business in discount, deposit, exchange, other negotiable securities, coin and bullion. They are given wide privileges in the matter of loaning upon the security of commodities in process of manufacture, in store, on the way to market, or passing into, out of, or through the country by land, rail or water; they may loan upon the collateral security of the bonds, stocks and debentures of municipal and other corporations, or public securities of any description; but they may not loan upon the security of stock of their own or any other Canadian bank, or of real estate or mortgages or of completed ships.

Their joint and transferable stocks, and the limited liability of investors in these corporations, have an obvious explanation. Without them it would be impossible to secure the capitals on which the banks are grounded. As it is, their capital comes from all parts of the British dominion, the stock lists showing that some is held at the very antipodes, in India, the Cape Colony, and Australia, as well as in Great Britain. That each bank is chartered was partly due, originally, to the desire of proprietors to secure the limitation of their liability for the debts of the bank to the amount of their subscriptions merely. The liability was extended, as we have seen, to twice the amount of subscribed shares, in compliance with Imperial regulations respecting Colonial banks, and the requirement was afterwards modified and improved under Confederation as a safeguard for their general creditors. Where the shareholders are exempt from the additional liability, as in the case of the Bank of British North America and the French Bank *en commandite* (principal partners liable to an unlimited extent, *commanditaires* to the amount of their subscriptions only), the precaution is taken of requiring that note issue in excess of 75 per cent. of the unimpaired paid capital shall be covered by debentures or money deposited with the Dominion Government.

That each bank must be separately chartered, though all are subject to the same general Bank Act, is due partly to the historical tendencies in Canadian legislation with respect to banks, partly to the principle generally followed by English Governments, to restrict the issue of notes, intended to circulate as money, to those to whom the power is expressly confirmed. We have inquired into the origin of this power of

Canadian Governments, and found that, rather than from the Mint prerogative, it is probably derived from the general powers of supervision and regulation exercised by the State, and the conditions which Parliaments have been able to exact in return for the concessions desired by bank promoters. In Canadian law, all companies established under Dominion legislation are incorporated by special charter, although in some cases the charters of a group of similar corporations are continued by a general Act applying to the whole group. The disposal of bank charters has never been marked by the fraud or partizanship which make the record of some of the American commonwealths so discreditable in this respect, and caused the people of others also to forbid to their legislatures the establishment of banks of issue,[1] to require referendum of the question at the next general election,[2] or to make all but adaptations of "free banking," to regulate the note issue, unconstitutional.[3] Yet charters have been easily obtained, too easily obtained. Since Confederation forty-four charters have been granted, and only five proposed charters reported on adversely by the Committees on private bills. Twenty of the forty-four have been forfeited for non-user. Moreover, the authorized banking capital of Canada has never been fully subscribed during the last twenty-seven years, or entirely paid-up. Any new bank may now be chartered so soon as the projectors convince the disinterested committee of Ministers and heads of departments known as the Treasury Board, that their intentions are honest and that they have financial backing. A favorable report by the Treasury Board or the House Committee on Banking and Currency makes the bill a Government measure and ensures its passing. The Canadian banks have enjoyed no monopoly against the entrance of new competitors *bonâ fide* into banking, nor have the shareholders profited from investments in stocks which others might not obtain. That it has been difficult for enterprising but needy speculators to start a "bank" in order to borrow the money of others for their own purposes, or that investors have gained from the increased prosperity and improved business which time and wise management brought to the bank they helped to start, are two facts resembling the effects of exclusive privileges, to which probably no one will object.

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[1] Arkansas, California, Oregon, Nevada, Texas and Washington.

[2] Illinois, Missouri, Iowa, Kansas, Michigan and Wisconsin.

[3] New York, Pennsylvania, Indiana, Illinois, Michigan, Iowa, Kansas, North and South Dakota. *Cf.* John De Witt Warner, "Ten per cent. tax on State bank notes," Speech in the House of Representatives, 2nd June, 1894, Washington, pp. 36, 38.

The "commercial and industrial" characteristics of the chartered banks are the result as well of the restrictions in the statutes governing them, as of the traditions of Scotch and English commercial banking, which were early brought over to Canada and eventually became well established principles of Canadian banking practice.

The early charters limited the value of real estate which the banks might hold, and ever since the law has forbidden banks to engage in trade or to take mortgages or lands except as additional security for debts previously contracted. In the sense in which I shall use it, industrial will also connote what is sometimes expressed as agricultural. The Canadian banks are agricultural quite as much as they are commercial, but their loaning to farmers is ordinarily conditioned by the prospect of an increase of commodities upon which it will be possible to realize soon, or of such sales as result in speedy returns. In land banking the chartered banks do not engage. The ultimate reason, of course, is in the necessity for banks of issue and deposit to invest their funds only in easily and quickly convertible securities. The best form of such assets are producers' and traders' notes and bills of exchange, given for loans of circulating capital, wherewith to assist production, facilitate exchange and anticipate returns. Another cause is the differentiation of credit institutions. There are obvious advantages to all concerned in leaving land banking to the specialized skill and experience of loan companies and building societies.

§ 55.—THE PRINCIPLE OF LARGE BANKS

The Canadian banks are few in number, but as individuals their establishments are many, their business and capitals large. In the United States, which has a population something over thirteen times as numerous as that of Canada, there are in operation about 3,796 banks of the National system alone,[1] that is to say, one hundred times as many banks as in Canada. Their average paid-up capital is only $143,648; that of the Canadian banks, $1,619,986, or twelve times (11.9) as large; their total capital is $545,288,782, not quite nine times that of the Canadian banks on the 30th June, 1894, $61,559,473.

The figures will indicate the meaning of large as used in this connection. The adjective adopted applies particularly to the banks domiciled in Ontario and Quebec. The twenty-four corporations whose head offices are in these provinces have a total authorized capital of $56,716,666, of which $52,389,417 are paid-in.[2] Seven of these, five being French banks in the Province of Quebec, have capitals of less than a million dollars, and of the French banks, four have less than $500,000. Of the larger banks, four have capitals of more than four and a half millions and a total of $28,866,666; eight, between $1,400,000 and $2,500,000 and a total of $14,441,023; and five between $1,000,000 and $1,250,000, with a total of $5,850,000. Nova Scotia has two banks capitalized for more than a million, the sum of the two being $2,600,000; three for $500,000 and over, total, $1,700,000, and three for $260,000 to $300,000, total $809,788. The three banks domiciled in New Brunswick have a total capital of $880,000; the one in British Columbia, $2,920,000, and the two in Prince Edward Island, $247,388. Twenty of the thirty banks in operation the 1st January, 1894, controlled $54,677,689, *i.e.*, 88.67 per cent. of the total banking capital of the Dominion, then $61,546,593. The eighteen smaller banks are partly due to incorporation of the small local institutions of the Maritime Provinces with the system of the Dominion after Confederation, partly to the demand for banks of a local character, strengthened as it has been by municipal pride and ambition, partly to the endeavors, which those who made them would doubtless call patriotic, to establish banks in the Province of Quebec, owned and officered by persons of French blood, and finally to the energy, but rather qualified success, of certain ambitious persons in starting and carrying on a bank under their own direction and management.

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[1] Report of the Comptroller of the Currency, 4th December, 1893, Washington, 1893, p. 72.

[2] The statistics are from "Report of the Chartered Banks, etc.," for the month ending the 31st December, 1893, and are for the last business day of that month.

In the main, therefore, the system is one of a small number of large banks. The increased capital requirement of the Act of 1890 is a legal step in the direction of making the organization of new banks more difficult. No new bank has entered the field since 1885. Investors prefer the stock of the older banks that have the advantages of large rests, wide connections and firm public confidence. Of the fourteen banks chartered in 1883 to 1893 inclusive, only five could comply with the requirements of the Bank Act and actually began business; three of the five have already been put in liquidation, two in 1887 and one in 1893. It may be expected that hereafter both people and Parliament will be disposed closely to scrutinize applications for new charters. The enthusiasm for new banks prevailing in the fifties, the early seventies and in 1882-1886, has abated. Compared to accumulations and the supply of loanable capital, there is less intense demand for it. Security and the motives of the depositor are now weighty considerations. Assistance to production and the development of the country's resources have lost their former predominant importance. The tendency of the number of banks to remain stationary, or even to diminish, so pronounced in English and Scotch banking, is thought a factor of considerable influence in the present Canadian situation. If the existing banks keep pace with the development of the country by placing branches in the new and growing districts, it is highly probable that in the future increased needs for banking capital will be supplied through them; that banking extension will be chiefly effected by additions to the capital stocks already established, rather than by the formation of new ones.

The almost absolute certainty of such a development is, on the whole, reassuring. As banks grow older they usually gain in strength and stability. Eight of the ten failures since 1867 have been of lately organized banks; only one had had a life of fifteen years, one of nine, another of eight, three of four years and one of four months. The principle of large banks, furthermore, has been adopted by almost all the countries of Europe. It is exemplified in the United Kingdom, as well by the Bank of England, as by the joint-stock and Irish and Scotch banks. It is, without doubt, necessarily connected with branch banking; in Europe and England the plan of favoring large banks is usually combined with the establishment of a single predominant central bank, enjoying special privileges and close relations with the Government, and in a greater or less degree under its management or control, in some countries, *e.g.*, Russia, wholly owned by the State. In the continental sense the Canadian banks are not "large"; there is not *la unité des banques*, but *la pluralité d'émission.* There is no privileged bank, the monopoly feature is absent; between the banks there is a constant competition. As Sir Francis Hincks phrased it, "they are all on the same footing." The Government stands towards the banks in a supervisory, regulative, and if need be, disciplinary position. Supervision must not, however, be confused with the technical inspection or with the power to interfere with bank management and legitimate business. The only bases for Government action are the monthly returns, the special returns that may be called for, and the penal provisions of the Bank Act. Canadians have thought that the strict observance of this statute, and certain punishments for violating it, are best secured when Government is independent of the subjects of supervision and uninterested in their gains. There is then no National or Government bank; the Bank of Montreal is merely the depository of the Government, their bankers and fiscal agents. The banks are all privately owned and managed in the interests of their shareholders by officers whom the several boards of directors appoint.

It is in connection with management that one finds a marked advantage in large banks. Organization and consolidation tend to increase efficiency, and lower the cost of individual services, as well in banking as in other activities. A large bank with large funds is able to spend whatever may be necessary to secure men well endowed with talents of management. Under their guidance, at the head, it can employ in the management of its branches men who, acting on their own responsibilities, *e.g.*, as managers of local banks handling no greater funds, might be unequal to their tasks. There is added efficiency at the centre, a saving in expense at the branches. And of this double gain a large part is not infrequently devoted to further acquisition of marked banking ability, whereby still to increase the efficiency of the bank's organization, the safety of its business and the profits which the other results will promote. Then again, the directorate of a large bank is more likely to contain a greater proportion of quite wealthy men than a small one, and these, presumably, are somewhat abler, as careful business financiers, than others with less tangible evidences of economic success. A large bank, finally, has access to a wide territory and a great variety of conditions in which to train its officers. By transfer from one branch to another they gain in experience and versatility, are freed from local prejudice, acquire familiarity with the different kinds of customers and securities with which the diversified business of the bank is concerned, and present to the bank itself a wider choice of well known men from whom to select incumbents of its higher offices.

A second advantage of large banks is their great command of capital, their power to take whatever proper business may be offered them, their ability to accommodate their customers to any necessary amount. With this comes the practical possibility of restricting a customer to one bank, of requiring that his banking account be kept with but one institution. Whatever advantage accrues from restricting the credits of manufacturers and merchants to the limits which bankers well acquainted with the financial position of their customers decide are safe, may be fully realized in a system of large banks. If the customer is dissatisfied with the regular line of credit granted to him, he may remove his account to another bank. A Canadian borrower who secures advances from two or more banks is regarded with suspicion and is likely to have his custom refused by some of them when his practices, as they must be, are discovered. Under a system of small banks, such as the National banks of the United States, the practice of banking with a single concern is often impossible. The legitimate needs of a single borrower often exceed the funds at the disposal of local institutions, and should these be adequate, the National bank is forbidden to lend more than ten per cent. of its paid-up capital stock to any person, firm or corporation, except on bills of exchange and commercial paper owned by the borrowers. The National banks, accordingly, are obliged in some cases to rediscount the commercial paper offered them, in others to submit to their customers having more than one banker. A third escape is opened to the borrower in the possibility of forwarding his paper to some bill-broker in the nearest large city, or in New York, and getting it discounted there. In any case there is a complication added to the artificial structure of credit, and incompleteness in the knowledge which the lender should have of the debtor's position. In the first and last cases, an intermediate series of debtors and creditors may enter between the original borrower and the ultimate lender. This exaggerates the sensitiveness of credit by widening the area of interdependence, a result quite unnecessary in a system of large banks.

Third, large banks have great stability and strength. The security they afford to note holders, depositors and other creditors is usually superior. The proportion of capital, rest and reserve liability of shareholders to the bank's general liabilities is not necessarily greater than in the case of small banks. There is no reason why public confidence in the large institution, as expressed by note circulation and deposits, should be less, proportionately, than it is in the small bank. The liabilities of the Canadian banks to shareholders and public are about 4.94 times their paid-in capital, those of the National banks 4.58 times their capital. The chances are, as English experience shows, that the larger bank will enjoy the greater business for each unit of capital foundation. Only one of the ten insolvent Canadian banks had a capital of over a million dollars. Four had capitals of $600,000 or less, and the other five capitals of less than $400,000. The comparison of 248 insolvent National banks out of the 4,930 organized with the ten insolvent Canadian banks out of 55 some time in operation since 1867, is no comparison at all. The thirty-eight surviving banks have over 500 different establishments, and to be fair, the comparison must be made between the number of establishments affected by insolvency. With one exception the Canadian banks in question were small and their branches few in number. It is because the management of a large bank is presumably able, and their stake depending on care and caution so great, that the creditors of a large bank enjoy a high degree of security. Every instinct of self preservation demands that unusual risks or speculative investments be avoided; that safe rather than brilliant banking be the guiding policy. When losses are incurred, a large bank can bear and write off defaults that would definitely swamp a small bank. Take for example the occasions on which the Bank of Montreal, though not explicit as to the amounts, has acknowledged the loss of a million dollars, the time that the Merchants' Bank reduced its stock from nine million to six, or that the Ontario Bank wrote $1,500,000 from its capital, or again the reduction of $1,100,000 on account of bad debts made in the rest of the Canadian Bank of Commerce in 1887.

Lastly, public criticism, a valuable restraint in any system, is more acute and concentrated when banks are large. Confidence, as a condition precedent of banking development, should be well founded and reasonable. The monthly exposure of each bank's condition by the publication of its report to the Government has been required since 1854. The continued expansion of the Return by requirement of more thorough analysis and minute details is sufficient evidence of the benefits obtained from this device. To-day, not only the character of each bank's assets and debts, how many are secured by real estate, how many are overdue, etc., practically its exact condition, but also, in great measure, their relations to each other, may be ascertained from the "statement of banks acting under charter." The publicity makes Government supervision possible, and, in many cases, forms a difficult obstacle to violation of charter restrictions. Public, press and competitive banks are watchful critics of the Return, and conclusions reached by outside observers or the newspaper writers are given prompt and full expression each month. But where banks are small and many, the attention of the critics tends to be dissipated, their interest to be diminished. To concentrate criticism its objects must be few, and if the banks are few they must be large.

A comparison of the banks of Canada and those of the United States in the respect just discussed would not, it is likely, be a very serious arraignment of the American plan. For the last sixty years at least, the American development, though its tendencies have been unique, seems to have been steadily on the lines of local, particularistic banking, the different parts of the monetary and credit organization being united, of course, through an intricate system of exchanges, the minor centres in the clearing house and redemption cities, and the great centre in the city of New York. The American National banks would suffer most from the comparison with respect to the command of funds and the power to accommodate customers pertaining to individuals of the system. They are not subject to such widespread or keen public criticism, but this is offset by the useful though sometimes misleading official inspection, a safeguard which is practicable in any sense only where a bank is confined to one locality and office. Then, too, the creditors of most of the banks are chiefly local, and persons in other districts are comparatively uninterested in their condition. For stability, if that is to mean the continued solvency of all the banking offices of a system, and the continued power to protect solvent and worthy customers at critical moments, the Canadian banks have a somewhat better record. As to security, an exact comparison on the basis of loss suffered by creditors is not possible. The affairs of 123 insolvent National banks are not yet finally closed.[1] Even if the proportion borne by total loss of principal in thirty years to the total liabilities of the existing banks of the National system, should appear to be less than that borne by Canadian losses in the last twenty-seven years to the present liabilities of the Canadian banks to the public, the conclusion as to security would not be unreservedly in favor of American banking. Operation under State laws has usually been a resource for those who felt hampered by the severer conditions of the National Bank Act. In Canada, however, the conduct of joint-stock banking in all its branches is possible only under the legislation of the Dominion. A rather careful estimate, moreover, points to the probability that when ascertained, the proportion borne by loss suffered from banks under Federal laws is higher than that borne by the loss suffered from Canadian banks subject to the Bank Act.[2] Another aspect of the question of stability comes to view in the fact that since 1837, there has been no general suspension of specie payments in Canada, or need for resorting to such devices as clearing house certificates, checks payable only through the clearing house, or the unauthorized issue of scrip.

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[1] Comptroller's Report, 1893, pp. 206-213.

[2] The proportion of approved claims against insolvent National banks which will never be paid, will not fall short, probably, of $25,000,000. The liabilities of the National banks, less capital stock and surplus fund, were $2,284,272,164 on the 31st October, 1893. Our computation of Canadian losses since 1867 was $1,922,000; the total liabilities of the banks to their creditors on the 31st December, 1893, $218,662,965. The percentage in the first case is 1.094, in the second .874.

§ 56.—THE PRINCIPLE OF BRANCH BANKING

For the purposes of this section, branch banking may be defined as the prosecution, under the control of the parent bank, and upon its general capital and means, of a business in banking credits, at offices established in places other than the domicile of the parent bank. It is most practicable and profitable when the parent bank is large, and when it enjoys the privilege of issuing notes upon its general credit, *e.g.*, the Scotch banks, the Australian banks, the two Banks of the United States. The Canadian statutes which permit it, and the Canadian practice of using the power to establish branches, agree with the principal banking systems of Europe, of Great Britain, and the British colonies. Branch banking has been widely extended in Canada; on the 1st June, 1894, there were, exclusive of city branches, 465 establishments of the chartered banks, in 259 different localities.[1] The number of branches established by each bank varies somewhat, according to its capital, the character of its business and the policy of its management. The Bank of Montreal has thirty-eight branches in Canada, and New York, Chicago and London offices; the Bank of British Columbia has ten branches, of which four are in the United States. The Canadian Bank of

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[1] The territorial distribution of these branches is best indicated specifically:

Branches in	Places	No. of Offices
Ontario	134	243
Quebec	47	82
Nova Scotia	38	62
New Brunswick	16	31
Manitoba	8	19
British Columbia	7	13
Northwest Territory	6	8
Prince Edward Island	3	7
	259	465

The Banker's Register, Chicago, 1894, pp. 346-355.

Commerce has fifty-one branches and an agency in New York; the Merchants' Bank of Canada has thirty branches and a New York agency. The Bank of Nova Scotia has twenty-six establishments in Canada, an agency in Chicago and another in Kingston, Jamaica. The Molsons' Bank has twenty-three branches; the Merchants' Bank of Halifax and the Imperial Bank of Canada, each twenty-two agencies. Twenty-two of the banks have ten or more offices, eight but one each, and eight from two to nine offices.

Certain advantages both to the Canadian public and to their banks of which branch banking is productive, may be summarized under the following heads.

I. The collection and distribution of loanable capital from and to different parts of the country are accomplished at the minimum of expense and with the maximum of thoroughness. When the instrument of both the services is a single organization such as a large bank with numerous branches, the task is better performed, it would seem, and certainly at less cost than when two or more banks are necessary to the same series of services, and each must be rewarded for its part. The same Canadian bank that collects capital from the older, accumulating districts in the form of deposits, transfers it to the centres of industry and commerce, or to those districts for whose development and activities more capital is needed than can be supplied from the local stock. The process of intelligent distribution is facilitated by the knowledge of local conditions had by the parent bank from the officers of its branches, and the consequent ability to loan when the demand is great, with the same safety as a local lender. Where the banks are merely local, the specialized knowledge frequently lacks the necessary funds. The banks of Massachusetts, *e.g.*, may have hard work to find satisfactory investments at 4 per cent., while Colorado banks are offered more good discounts at 10 per cent. than they can take. The following table of the rates of discount on good paper in different parts of the United States at arbitrary dates in 1891, 1892, 1893, is a further illustration :

RATES OF DISCOUNT charged on time loans in different cities in the United States during the week preceding the day on which they were reported in *Bradstreet's* :

	1890	1891		1892		1893	
	27th Sept.	30th May	21st Nov.	16th Apr.	17th Dec.	25th Mar.	2nd Sept.
Boston	5 @ 7	5 @ 7	4 @ 6	4 @ 6	5 @ 7	6	7 @ 8
Philadelphia	6	5½ @ 6	5½ @ 6	3½ @ 5	5 @ 5½	5½ @ 6	10 @ 12
Chicago	6 @ 8	5 @ 8	6	5 @ 6	7	6	7
St. Louis	7 @ 8	8	6 @ 8	6 @ 8	6 @ 8	6 @ 8	6 @ 8
Detroit	6½ @ 7	7	......	......	7	7	7
Kansas City	8 @ 10	8	6 @ 7	6	6 @ 8	7 @ 8	7 @ 8
New Orleans	8	6 @ 8	8	4 @ 6	6 @ 7	6 @ 7	8 @ 10
St. Joseph	7 @ 8	8 @ 10	8 @ 10	8	7	6 @ 8	7 @ 8
Memphis	8	8	7 @ 8	6 @ 7	8	8	7 @ 8
Portland, Ore.	......	......	......	......	8 @ 10	8 @ 10	8 @ 10
Galveston	8	8 @ 10	8	8	8	7 @ 8	7 @ 8
Seattle	......	......	......	......	10 @ 12	10 @ 12	10 @ 12
Louisville	6 @ 7	7	7	7	7	7	7 @ 8
Milwaukee	7	6	7	6 @ 7	7	7	7
Cincinnati	6	5 @ 6	5½ @ 6	5 @ 6	5 @ 6	6 @ 7	6 @ 8
Providence	6 @ 6½	5½ @ 6	6	5	6	6½	7 @ 7½
Omaha	8	8	8	6 @ 7	8	8	8
Baltimore	5½ @ 6	5 @ 6	......	......	5½ @ 6	6	6
Pittsburg	6 @ 7	6 @ 7	6 @ 7	6	5 @ 6	6	6 @ 7
San Francisco	7	7 @ 8	7	6	6 @ 8	6 @ 8	8 @ 10
St. Paul	8	......	......	4½	6 @ 8	8	8
Houston	8	......	......	......	8	8	8
Denver	......	......	......	......	10	10	10

Differences in the United States would probably be much greater were it not for the action of western banks as agents in placing loans for sister banks in the east ; between the rates in western towns of less importance and those in the financial centres of the east, the differences are much greater than the above figures for the larger markets indicate.

But the Canadian banks are not local ; their interests and their activity are bounded, not by the confines of a single town, but by the borders of an entire province or of the Dominion itself. They borrow capital where they can get it and loan it where it is needed. " So perfectly is this distribution of capital made, that as between the highest class borrower in Montreal or Toronto, and the ordinary merchant in the Northwest, the difference in interest paid is not more than one to two per cent."[1] On loans of equal security the interest charged will not vary one per cent. the country over, whether the debt is contracted in Halifax, Quebec, Hamilton, Calgary or Vancouver.

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[1] B. E. WALKER, "Banking in Canada," in *Journal of the Canadian Bankers' Association*, Vol. I., p. 18.

This unqualified advantage may be summed up as a national equalization of the rate of interest through economies in the cost of transferring capital, and a highly effective system of arbitrage.

II. Ample facilities are afforded to small towns, isolated borrowers and the country generally. For the purposes of good investment a branch has resources limited only by available funds of the great bank of which it is a part. The petroleum producers, the great wheat farmers in the Northwest, the distillers in small Ontario towns, or the packing houses and lumber firms in little New Brunswick villages, have, almost at their doors, agencies of the greatest banks in the Dominion, ready and able to advance on the security of unmarketed products or goods in course of manufacture, to buy their sterling exchange or to discount the paper arising from other transactions already concluded. Produce shippers have access to like conveniences, no matter, practically, how remote or unimportant the district in which they operate. No worthy industry, whatever its distance from the centres, need droop for lack of banking facilities. The agricultural districts are provided with places near at hand for the deposit of their savings, and they are given liberal accommodation, at seed time, before harvest and whenever else there is a prospect that the use of the loan will provide the means for its payment. The degree in which the description "agricultural" applies to Canadian banks is seldom noticed in accounts of the system, but it is increasing from year to year. In 1881, when there were only two less banks than now, the number of branches was 287.[1] In 1890 there were 444 branches, and 225 of these were in towns without the office of another chartered bank.[2] Correct judgment, it is believed, will acknowledge from the Canadian banks services to the agricultural development of their country as great as those for which the Scotch banks have been universally esteemed.

As from the first, there arises from this group of advantages due largely to branch banking, a levelling of the rate of interest, and also increased economies of time in the transportation and marketing of goods.

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[1] George Hague. "Banking in Canada," in Proceedings of the Convention of the American Bankers' Association, New York, 1881, p. 99.

[2] Garland, *ut supra*, p.35.

III. The risks of investment are distributed and varied, and the banks are more certain of regular profits. Unlike that of the National banks, their prosperity is not largely dependent upon the fortunes of single towns or sections. Nothing is more emphasized by Canadian bank managers than the inevitable condition of a bank's gain or loss, viz., the prosperity of its customers as a whole. Under the branch system, however, the losses, bad harvests, or depression in one part of a bank's territory are set off against the good crops and more successful issue of the year's business in another. This, to a great extent, was the case with losses incurred by the banks with branches in Manitoba, after the Northwest boom collapsed in 1882, and dozens of other examples might be cited from the reports of shareholders' annual meetings. It may be objected that all this involves having too many irons in the fire, just as it may be said that in affording ample facility to the borrowers of his neighborhood a branch manager may exceed the limit of safety. But the first objection will not hold if the organization of the bank is thorough; the second will be due to faults in judgment from which no man is sure to be free. Branch banking is still a case of not carrying all the eggs in one basket; the gain in stability and the strength to survive local disasters is enormous.

IV. The establishment of branches gives the parent bank opportunities to extend its note circulation. As circulation is issued as a general charge against assets, country banking thus makes possible a special addition to the *credit* loaning powers of the banks, which in so far economises material capital without loss of its beneficial effects. The banks gain further from the slightly higher rate of interest (an extra ½ to 1½ per cent.), secured from country customers, partly because of the technical inferiority of the security they offer, partly because of the less severe competition in such localities. Yet, valuable as their services are to the community, many of the country offices return but slight profit Many could not be kept up were it not for the increase of circulation which they promote and the possibility of saving interest on till-money by usin unissued notes for the purpose. These features of bank note issues like the Canadian will be discussed more fully in § 58.

V. A fifth advantage lies in the centralization of bank management, and nationalization, so to speak, of banking policy. I have called the Canadian system decentralized, because there is no enormous central bank domineering over all the others, and because there is competition, much of it, too, in every department of banking. In another sense the banks are centred; seven of them with capital of $14,560,958, have their head offices in Toronto; eight, with capital of $27,756,266, in Montreal; three banks with capital of $4,900,000 are domiciled in Quebec, and five, with stocks amounting to $4,300,000, have their head offices in Halifax. Twenty-three banks with a total capital of $51,517,224, are superintended from the four focusing points of Canadian commerce and finance. Their superintendence, however, is not more concerned for the advantage of traders and producers in these localities than of those elsewhere. The business of the banks comes from every part of the country; the obligation to "take care of customers" is as strong in a lumber village of northern Ontario as in St. James street, Montreal. Here comes the nationalization of banking policy; the interests and responsibilities of the banks are wide; the measures they take at one time and another must be broad of purpose and generally beneficial to correspond. In times of stringency or impending panic they must heed the welfare of their province or of the entire country; upon it depends their own. The branch system, moreover, prevents to a great degree the antagonism of interests in a panic or time of contraction between a great number of establishments, each selfishly intent on self-preservation, and anxious to store away all possible cash against the threatened day of trial. The reserves of branches are the reserves of parent banks; the country offices have the same interests as the city establishments; the branches, further, are subject to orders from the head offices at the centres. There may be hoarding, but reserves are not scattered through the country; they are kept at the centres where the heaviest payments are eventually set off against each other. There is no parallel in Canadian experience to the American crisis of 1893, and so far as that action at cross purposes by city and country banks which preceded the culmination of the difficulty is concerned, a parallel would be impossible.

VI. Branch banking tends to promote more judicious and impartial administration of the lending powers of the bank than local banking. The confidential character of banking transactions is better secured. The manager of a branch, has ordinarily received his training in a variety of situations. He is likely to deal as a *banker* with the clients of his branch and not to be exposed, not to be subject, to the influences of friendship, family ties and business connections; in all important questions he must consult his head office. Instead of having his affairs discussed by his acquaintances, perhaps by his competitors on the board of a local bank, the applicant for credit receives impartial treatment from the remote and disinterested general manager on the basis of his own and the branch manager's statements of the facts necessary to a decision.

VII. The educative effect of this type of bank organization is not without importance. A certain improvement in the commercial habits of the people with whom the business is carried on is usually ascribed to the introduction of any sort of banking. They show greater promptness in discharging payments and other contracts, more careful calculation of business chances and stronger habits of thrift. The familiar example of the Scotch has been over-used perhaps, although their banking system seems peculiarly calculated to promote these results. What special benefits of this character the branch system favors have been touched upon in the preceding paragraph; they are largely due to the excellent training of branch managers, their lack of prejudice and the possibility through them to bring close to the people the exact and thorough methods of the highest type of urban banking. Nearly every Canadian bank conducts a "savings department" as an important part of its mechanism for the collection of the spare capital of the country. They also pay interest on deposits, seldom on current balances of active accounts, but always practically on deposits which, being payable after notice or on a fixed day, are regarded by the makers in the light of investments. These deposits, on the 31st December, 1893, were to deposits payable on demand as 1,078 to 625. By this means the inducements held out to thrift are immensely strengthened, the depositing habit is cultivated, and both the country and the banks gain from the utilization of well nigh every dollar not required for the immediate purposes of the owners.

The principles of branch banking and of large banks, and the advantages to which they conduce, are not, as the reader has doubtless already complained, without their reverse side. But certain evils arising in a system of which they are characteristic have been noticed in the historical sketch of the preceding chapters. To realize the possibilities of the Canadian system, each bank must have a strong and thorough central organization, able, cautious, and vigilant management, a trained and disciplined staff, rigid inspection by officers of the principal establishment, specially detailed for the purpose, and the purpose both to observe the Bank Act and otherwise to keep within the bounds of safe and legitimate banking. Where any of these are unduly deficient, the shareholders are sure to suffer loss, but through competition and other safeguards, it will become so soon apparent that, as a rule, the creditors of the bank will be saved from injury.

Another caution may be ventured with regard to the attention given to banking profits under the Canadian system. The apparent one-sidedness disappears when it is seen that the advantage of the banks is also, in the truest sense, the advantage of the public. Ministers and legislators have often remarked, " Banks are chartered for the benefit of the public." They find the real justification of their banking system, without doubt, in the efficiency with which it promotes that benefit, not in the success with which the banks amass gains for their shareholders. Banking in Canada, we must repeat, is no monopoly. To bring forward the services which banks afford, at least the normal return from enterprises of like difficulty and risks must be assured to investments in their stock. Whatever increases the security of banking investments and thus diminishes the premium for risk, whatever extends the fields from which the banks can receive their profits, or increases the efficiency of capital by permitting a larger volume of credit to be based upon it, diminishes, *pro tanto*, the cost of the individual services which the banks afford. The competition between Canadian banks is of the most free and active variety. The value of the bank's services, therefore, cannot rise above their cost,—the lowest return which will induce sufficient expenditure of capital and labor in the production of such services. That cost is expressed for the public by the rate of discount. Reduced cost means reduced rate of discount, and in this great respect, at all events, the interest of the banks and the interest of the public are one and the same.

§ 57.—THE CANADIAN SYSTEM OF NOTE ISSUE

Each Canadian chartered bank has the power to issue its promissory notes, payable to bearer on demand, for circulation as money. The exercise of this power is restricted by no requirement to hold a minimum reserve against the notes issued, or to secure them by the pledge of definite assets; but it is confined to the corporations to whom the power is expressly confirmed, and they may not issue in excess of their unimpaired paid-up capital stock. Except in so far as they are the first charge upon all the assets of an insolvent bank, the notes form a liability indistinguishable in its essence as a debt, from such other liabilities as deposits payable on demand. In one sense it is a matter of indifference to Canadian bankers whether their liabilities to the public are incurred by issuing notes, or giving book credits to their depositors. As Alexander Hamilton clearly proved, at almost the very inception of American banking, it is the interest on the securities purchased by his credit, that concerns the banker, not the particular form in which that credit is used.[1]

From the general economic and legal standpoint, these bank notes must be viewed as a part, and only a small part, of that vast volume of bills of exchange, cheques and other instruments of credit or evidences of rights to demand money, which are more and more used in convenient and economical substitution for the coined precious metals as media of exchange. Bank notes are only one type of the devices by means of which modern commerce is becoming more directly the barter of goods for goods, and through which the use of money itself[1] as a means of transferring value, is being constantly economized. When subject to no other regulation than that of the commercial law enforcing the obligation of which they form the evidence, the extent to which these various instruments of credit are issued or retired is dependent on the need for their issue ; in other words, the circulating medium which they compose is naturally elastic. The person who accepts them in satisfaction of a debt, does so at his own option, and, though protected in many cases by the continued liability of the transferor, at his own risk. When bank notes are regarded merely as a liability no different in substance from deposits, it is quite true that depositors seem to have a "claim for equal consideration" with the note holders. At all events, there is no reason why that part of the circulating medium composed of notes should be less elastic than that based on deposits, and given form as cheques.

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[1] Report on a National Bank, 13th December, 1790. CLARK and HALL, Legislative and Documentary History of the Bank of the United States, Washington, 1832, p. 16. *Cf.* DUNBAR, Chapters on the Theory and History of Banking, New York, 1891, p. 56.

A high American authority has said that legislators have generally failed to perceive the similarity of the two kinds of liability ; that the appropriate measures for the protection of note-holders are more obvious, and of easier application ; and that depositors, as a rule, are better informed, can more easily protect themselves, and so have less claim on the guardianship of the legislature.[2] I apprehend, however, that the real reason lies deeper. Of all the substitutes for money, bank notes are the nearest like money. They are transferred by delivery merely, they pass from hand to hand without indorsement, they are issued in convenient and even denominations, and they are legal tender if not objected to as money. Where the greater part of the circulating medium issued in the small exchanges is composed of bank notes, many creditors have practically no option whether or not to accept in payment these conventional substitutes for money. A retail trader, *e.g.*, is forced to receive the notes by custom, and the probability of having to wait for satisfaction, if he does not take it when and how it may be offered. It may be objected that the smallest shop-keeper or humblest laborer has the right to refuse paper which will not be redeemed at its face value. With regard to the notes of a particular bank, the objection holds. But on the one occasion when a general suspension of specie payments was permitted Canadian banks, inconvertible notes were taken by traders at the same value as paper paid in specie. In the great majority of cases, the bearer of a bank note holds a debt, which, though not of his own seeking, it was conventionally necessary to accept. Apart from the precepts of economic policy, justice to the note-holder as a quasi-involuntary creditor, must always be a valid and effective reason for special legislative action to make his claim secure.

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[1] Money is here used as denoting only precious metals, coined by the State, and the fiduciary or fiat issues, whether of the State or its creatures, which are established as the legal tender in payment of liquidated debts.

[2] Dunbar, *ut supra*, p. 58.

The quality of security is necessarily associated with that of convertibility. If it were impossible to change the note for the money promised on its face, the creditor's claim would not be secured. But security and convertibility, as the people of the United States ought to have learned in the last fourteen years, are not the only desiderata in a circulating medium so like money, and used in substitution for it. It is an accepted doctrine of monetary theory that the amount of metallic money in a country is so regulated by the action of the international exchanges, that it tends constantly to the point where its effect upon prices will not disturb the balance of trade, or as it has been called, the equilibrium of international payments.[1] If a metallic currency is to be partly replaced by a quantity of bank notes, the substitute, to be perfect, ought to be as elastic, at least, as that part of the circulating medium instead of which it is used. If, further, the volume of the bank note circulation is so elastic that it easily and automatically corresponds not only to what the trade of the country ought to have in the long run, but also to the frequent rhythmic rise and fall, which is especially marked in the commercial activity of communities largely agricultural, the advantage of the substitution is greatly enhanced. By means of bank notes, there is attained a more exact adjustment of the currency to the need for currency than was possible when the medium used in the exchanges effected by bank notes was wholly metallic.

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[1] J. E. CAIRNES, Some Leading Principles of Political Economy newly expounded, part iii., chapter iii., § 5.

The need that the bank note currency should be secure, convertible, and elastic in this second sense, is so nearly a generally accepted doctrine as to preclude the demonstration here. Besides, the proof can be found in almost any received work on banking theory. But the methods by which these desiderata are obtained in Canada present some unique devices and deserve examination.

First, then, as to ultimate security. Subject to the exceptions already noted, and the provisions that no bank may issue notes promising the payment of sums of money less than five dollars, or not multiples of five dollars, the Canadian bank note issue is free and plural. Though altogether arbitrary, the maximum limit is, in effect, a restriction upon individual banks rather than on the currency as a whole. The total authorized circulation on the 30th June, 1894, was $61,559,473, the amount outstanding $30,241,719.[1] The bank note circulation has never exceeded $40,000,000. Not more, probably, than four of the banks with a moderate paid-up capital and a relatively large and active business, find their authorized circulation inadequate in the most active season of the year.

The security for the ultimate payment of this liability is the prior lien given to the holders of its notes, upon all the assets of any insolvent bank. The notes were first made a preferred claim in 1880. Since then there have been four bank failures, and in every case all the notes presented have been paid in full. It will hardly be possible in the future for any bank to play the losing game so long that, when it is forced to withdraw, its property will not be enough to discharge its liabilities on notes. On the 1st January, 1894, the Canadian banks held assets, presumably good, averaging $8.809 for every dollar of their notes in circulation. Of individual banks, there was only one whose assets bore as low a proportion as $3.56 to $1 of notes ; only two others who held less than $6 against every note issued.[1] One bank shows as high a proportion as $10.91 of assets per dollar of notes, another $11.03, and another still $12.40. But this is not the only guarantee. The notes are a first charge, not only upon the $302,991,544 of assets, but also upon the double liability and unpaid stock subscriptions of shareholders to the amount of $63,313,315 more. The average guarantee behind each dollar of the circulation is, therefore, nothing less than the extraordinary sum of $10.65. For the Bank of Montreal, the proportion rises to $13.29, for the Dominion Bank to $14.40, and for the Quebec Bank to $15.42. The average, however, is one of the few that are really representative. By the Bank Circulation Redemption Fund, the note issue of any bank is become a debt which all the banks may be called on to redeem, an amount equal to 5 per cent. of the circulation being immediately available after a failure, and one per cent. in each subsequent year.

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[1] The figures are obtained by deducting from the grand total given in the statements of banks acting under charter, the authorized and outstanding circulation of the defunct Commercial Bank of Manitoba.

Suspension of the payment of any of its liabilities, as they accrue, if continued for ninety days, consecutively or during the year, constitutes a bank insolvent, and forfeits its charter, except for the purpose of collecting its debts and winding up the estate. Practically though, a bank fails on the day it stops payment. Its notes bear interest at six per cent. per annum from the day of suspension to the day of payment. In all probability, those in charge of a suspended bank's estate will be able to begin redemption within sixty days of the failure. The interest which the notes bear until redemption has begun rather tends to hasten the efforts of liquidators. But if they do not make arrangements for paying these claims, and do not publicly announce within the sixty days that such arrangements have been made, the Minister of Finance may make arrangements for the payment of the notes, with interest, out of the Bank Circulation Redemption Fund. Interest in this case also ceases after the day set for redemption.

This Fund, as we have seen, has been deposited with the Government for the very purpose of ensuring prompt redemption of the notes of an insolvent bank. It has been contributed by all the banks in sums equal to five per cent. of the average circulation of each during the twelve months preceding the 15th July, 1892. It is annually adjusted, and bears interest at 3 per cent. If it be depleted by operations of redemption, each of the solvent banks must contribute to make it good, by annual payments not exceeding one per cent. of its average circulation. With respect to notes paid out of the Fund, the Minister of Finance has the same prior lien upon the assets of the issuing bank as any other note holder, and if such notes or any number of them are redeemed, he is under obligation to return the proceeds, *pro ratâ* to the amount of their contributions, to the banks who helped to restore the Fund to its permanent level, *i.e.*, five per cent. of the total bank note circulation. The liability of the Government is limited to the amount of the Fund. Neither in the matter of ultimate security, nor of redemption in case of insolvency, does the Canadian State become responsible for the notes. The holder must look to the pledge of the banks first, last, and for all time, as the only guarantee of the credit currency. Experience proves that the first lien is ample ultimate security for the notes. By agreeing to maintain the Redemption Fund, the banks have bound themselves so long as they are solvent, to see to the payment of the notes of any bank of the system that may suspend.[1]

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[1] These banks have issued about $40,000, $1,050,000, and $120,000, respectively.

So far as the circulation is concerned, the Bank Act of 1890 does for the banks what the British North America Act of 1867 accomplished for the Canadian provinces. In either case confederation is now an accomplished fact. But the highest benefits of the bank federation are indirect. The Bank Circulation Redemption Fund is the latest, the strongest, the outermost safeguard set up about the circulating medium of Canada. The service of the Fund as a preventive, practically absolute, of discount on the notes of a suspended bank, provides the best of reasons for undisturbed confidence in bank paper. Formerly, it was necessary to keep telling the Canadian public that the currency was good ; now they are convinced. The Fund protects the note holder from loss, however ignorant he may be, or however humble or helpless his condition. It protects the banks against needless runs from this class of creditors, and materially strengthens their credit. It is to be admitted that the new security for the circulation somewhat strengthens that tendency of depositors to convert their claims against a suspected bank into a prior lien upon its assets, which is illustrated by the increase of circulation and the decrease in demand deposits shown below in statements of the Commercial Bank's condition.[1] But the impulse to change deposits into notes is only slightly stronger than when, before the establishment of the Fund, the notes were already the first charge against a failed bank's assets. The plan of meeting a heavy run by paying out notes is practicable only so long as the circulation is within the authorized limit, and does not come back for redemption. All the banks, except the five or six with largest capitals, have a very small margin between outstanding and authorized circulation; at best, therefore, a weak bank in serious difficulty could not pursue the policy for more than forty-eight or seventy-two hours. In the first place it would too soon exhaust its authority to issue notes, and further emission would subject its estate to heavy fines. Then persons who had once acquired the depositing habit would not keep notes thus received in their pockets or their safes. They would pay them in to other banks, and the demands for redemption pressed by these creditors would precipitate the failure of the suspected bank. The Commercial Bank of Manitoba withstood the extreme pressure but one day.

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[1] Suppose, however, that one very bad failure should exhaust the Fund, and that another bank, quite able to pay its debts and even return a dividend to proprietors, should fail or decide to wind up its business before the assessment to make the Fund good had been levied by the Treasury Board, would the second bank be liable to contribute? The case is nowhere treated in the Bank Act; the contribution would not be one of the penalties which are a last charge on the assets of an insolvent bank, and section 54 provides only for repayment *from* the Fund to the bank in liquidation, not from a bank in liquidation *to* the Fund. It is conceded that this hypothesis is a bit extreme. Suppose, again, a general financial and commercial crash, in which several banks should go down; what then would become of the Fund? Three of the banks have each a circulation equal to twice or thrice the amount of the Fund, while the notes of any two of twelve others, if falling upon the Fund for payment, would wholly deplete it. What would happen in case of the third failure? If, of course, such a catastrophe were probable, the criticism would be good. Laws must be passed with a view to what is likely to happen, and not to meet everything imaginable. The very banks whose failures are supposed to deplete the Fund, are among those notoriously well managed, stable and strong. In the worst failure that ever happened in Canada the assets of the bank, if notes had only then been a preferred claim, would have been enough and more to pay them in full.

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[1] The chief use of the Fund appeared after the failure of the Commercial Bank of Manitoba on Monday, the 3rd July, 1893. Induced by the interest and protected by the guarantee fund, the banks in Winnipeg and throughout Manitoba "accepted the notes after suspension freely, relieving the public from all inconvenience and fear." The notes never fell to a discount, and on the 16th September those held by the public were redeemed. The liquidator, finding he could better realize upon the estate by waiting a little, made arrangements to continue paying interest upon notes held by the banks until he should have the funds to redeem them. Thus, at the end of September, the circulation, which had been $419,135 on the 3rd July was $163,225 ; a month later $83,365 ; and on the last day of November $31,835, from which point it has fallen to $12,440, in June, 1894.

The Commercial Bank of Manitoba was the third of the banks started in the eighties to close its doors. In 1884 it had succeeded, as an incorporated bank, to the business of Macarthur, Boyle and Campbell, private bankers and financial agents at Winnipeg. Always extremely subject to local influences, usually, from all appearances, run with as much of a view to the development of the country as to the conduct of a safe and sound banking business, and resorting to such methods to obtain business as prudent bankers disapproved, the Commercial met a fate by others, at least, not unexpected. It had been indebted to its Montreal correspondent, on secured loans, since 31st January, 1892. Beginning at the modest figure of $25,000, the debt rose by the next January to $125,000, and by March to $166,290. During this period, settlements with the Commercial were difficult, and some banks in Winnipeg had regularly required the payment of balances in legal tenders, or, if accepting the bank's draft on Montreal, fore-assured themselves of its acceptance. The winter of 1892-3 was a hard one for the concern, and the spring quite as severe. In May, a drain of its deposits payable on demand was begun. It continued in June, with force much increased towards the end of the month. The greater part of the run was met by paying out notes. Thus, on the 1st July, $38,752 of deposits were called for, and $22,245 of notes paid out. Between the 31st May and the 3rd July, demand deposits were reduced $189,813; circulation increased by $140,606. The principal provision for the other $49,000 drawn out is best explained by the increase of $42,000 in secured loans from other banks. The process of paying out notes to anxious depositors had to stop, of course, as soon as the paper fell into the hands of other banks. The Commercial, having only $4,130 of money left in its vaults, could not redeem its paper, and was forced to suspend. The following table shows the state of the Bank at different times preceding the failure, and the effect of a year's liquidation :

The metallic materials of redemption—the money in which bank notes are payable—are American gold coins of the present

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CONDENSED STATEMENT of the Assets and Liabilities of the Commercial Bank of Manitoba:

LIABILITIES (cents omitted)	31 May, 1893	30 June	3 July	30 June, 1894
	$	$	$	$
Notes in circulation	278,530	396,890	419,135	12,440
Due Provincial Government	85,117	69,646	84,294	......
Deposits payable on demand	685,695	534,634	495,882	557·393
do. after notice	148,357	167,176	137,176	22,920
Loans from other banks in Canada, secured	160,000	172,583	202,583	......
Other liabilities	1,709	320	5,197	3,042
Total	1,360,470	1,341,251	1,344,269	595,796
ASSETS				
Specie and Dominion notes	23,273	4,130	4,130	......
Deposit for note circulation	19,750	19,750	19,750	14,750
Deposit in other banks	27 915	72,997	85,795	81,045
Notes, cheques and balances due of other banks	48,449	26,480	26,308	4,484
Current loans	1,714,192	1,649,059	1,636,260	536,790
Overdue debts	68,005	104.702	104,702	465,536
Real estate	31,828	41,158	41,158	32,501
Mortgages on real estate held	12,398	12,122	12,122	14,221
Bank premises	10,150	10,150	10,150	11,832
Other assets	10,741	10,599	13,789	10,063
Total	1,967,708	1,951,151	1,954,167	1,171,225

weight and fineness, the eagle being legal tender for $10 in Canadian currency, and the British sovereign and a half thereof, the unit being legal tender for $4.86⅔ in Canadian currency. Silver coins of 5, 10, 25 and 50 cents in Canadian currency, struck by the British mint, are legal tender up to $10; copper or bronze cents to 25 cents. The Dominion also issues a legal tender paper currency, redeemable in gold, in denominations of 1, 2, 4, 5, 10 and 20 dollars and upwards. These, with bank notes, constitute practically the whole currency of the country, except that which is used in making fractional change. The larger part of the Dominion note circulation among the people consists of one, two and four dollar notes, payable on demand by the Assistants Receiver-General at the commercial centre of any province; the balance of the circulation, from 50 to 70 per cent., is held by the banks. Upon the request of the payee, a bank is required, in making a payment, to pay not to exceed $100 of the amount thereof in Dominion notes of the smaller denominations. The chief variations in the amount of Dominion notes outstanding are due to the rise and fall of the large note circulation, and are dependent upon variations in the reserves held by the banks. The legal reserve against the Government issues not in excess of $20,000,000 is composed of (*a*) specie and Dominion debentures guaranteed by the Government of the United Kingdom to an amount equal to 25 per cent. of the total circulation, of which 15 per cent., at least, shall be in specie; (*b*) Dominion debentures, issued by authority of Parliament, to cover. Issues in excess of $20,000,000 are covered by equal amounts of specie. In practice, considerably more specie and guaranteed debentures are held than the law requires; the practice now conforms to the original policy of Sir Francis Hincks, *i.e.*, to establish, after experience, a minimum to be covered by securities, and to hold for all issues in excess of the minimum, equal amounts of specie. If the unguaranteed debentures were sold to provide specie for redemption purposes, they would become liabilities quite as much as the notes themselves. The one difference now is that the notes have been issued to the public; the debentures may be issued. The supposition that the one "secures" the other form of liability is palpably absurd. The requirement that such debentures shall be held in amounts equal to the outstanding circulation not otherwise covered, originated, no doubt, in the idea that the Government would thereby be prevented from incurring debt on Dominion notes without the authority of Parliament. The only real reserve held against the notes consists of specie and guaranteed debentures. This need be but 25 per cent., but ought to be much more. Latterly it has been higher, in June, July and August, the specie alone reaching nearly 50 per cent.

There is high authority for the rule that the lowest denomination of bank notes should not be less than five dollars. If a small note circulation is necessary, or is preferable to a metallic currency, it is expedient, probably, that the Government should be responsible for it. Yet the small note circulation of Canada is of comparatively minor consequence. The amount of Dominion notes in the hands of the people, *i.e.*, outside the banks, has never been more than $8,000,000; $6,000,000 is nearer the usual figure. The total circulation outstanding is much larger, and now amounts to more than $20,000,000. Why? The obvious explanation is:—By compelling them to hold not less than forty per cent. of their cash reserves in Dominion notes, the Government has forced from the banks a permanent loan without interest which has varied in the last five years between ten and fourteen million dollars. Yet the credit of Canada is good; its securities, though bearing extremely low rates of interest, are highly esteemed by British investors. Its Government can borrow all that they need in the open market. The justice of a forced loan for 16 to 22 per cent., the entire banking capital of the Dominion, need not be examined.

It is enough that the reserve provision is injurious. It prevents the use of gold, or gold certificates, in exchanges between the banks at the centres. In a single day a bank might acquire, by collecting its just debts, so great a sum of specie that its total stock would rise above the proportion fixed by law, and sanctioned by a penalty of $500 for each violation. It diminishes the amount of gold held in the country. It impairs the ultimate banking reserve of the Dominion. That reserve is not at all times instantly available in its nominal strength, as it would be were the banks perfectly free. The cash which they hold consists, in part, of mere promises, and they are under constant obligations as to the proportion which such promises shall bear to the entire amount. If the banks had only Canadian payments to make, the objections to the requirement would be less serious. In Canada, Dominion notes are money.

But the liabilities of the Canadian banks are by no means merely Canadian. They are due in the United States, in the United Kingdom, Hong Kong, Australia. The really heavy demands upon Canadian banks have always been for settlement of balances abroad. To meet them they need the international money, and that is gold alone; for international payments, Dominion notes are just about as available as American silver certificates. It is true that there are redemption offices at Toronto, Montreal, Halifax and St. John, but when called upon to redeem quantities of their notes, past Governments, if specie was wanted for shipment to New York, have repeatedly paid out sovereigns; if it was needed for export to England, they have redeemed in eagles, and the coins desired have consequently cost a premium of one-eighth to one-quarter of one per cent. And in order to "protect the reserve," or "correct the situation," it is quite possible that authorities, within the next ten years, may again exercise this option to the cost and hurt of the honest commerce of the country.

The immediate redemption, the convertibility of Canadian bank notes, is ensured by their character as debts due on demand, for the payment of which the entire estate of the issuer is liable. The note must be paid when presented at the place of payment, else the bank whose promise it bears confesses insolvency and destroys its credit. A daily test of this convertibility is made wherever there are two or more offices of different banks. Bank notes are legally payable only at the offices where they are made payable, and at the redemption office which the Bank Act obliges each bank to establish at the trade centre of each province. That office may be a branch of the issuing bank, or an office of another bank which undertakes the service. The notes, however, must be received in payment at any office of the bank which issues them, and banks, in practice, do receive the notes of other banks. The balance due after the daily exchange of notes and other liabilities made between bank offices outside of the three principal cities, are settled by drafts on

Montreal, Toronto and Halifax. In these three cities there are clearing houses, and the balances remaining after the daily offset of claims due by the banks against claims due to them, are settled in legal tenders of the highest possible denomination. In consequence, the country through, there are frequent and thorough tests of the possibility to convert bank notes into the money promised by them. The public take little active part in this ; the banks do the work by presenting for payment whatever notes they receive in the course of their day's business. Of these, the notes of local competitors will stand for the largest sums ; notes of banks without a branch in the locality are forwarded to the nearest redemption office, and presented there

The possibility and enforcement of the immediate redemption of bank notes have an important bearing upon the elasticity of this form of circulating medium. I have already taken for granted the desirability of elasticity, and I waive now the discussion whether as high a degree of elasticity can be secured through the emission of fiduciary paper by other agencies, as when it was issued by banks. Canadian Governments and bankers have thought not ; American bankers, at their last convention, have come to the same conclusion ; and the views of all accord with the conclusions of what may safely be called the received theory of credit. But I shall endeavor to show that the Canadian banks do provide a medium of exchange, the volume of which exactly corresponds to the need for it—the need depending upon the number and amount of the transactions in which it is used—and that with profit and honor, the banks cannot do otherwise under the present system.

First let us look at the logic of the case. The funds at the command of a bank, its lending power, or its purchasing power as a buyer of negotiable securities, are based on the capital furnished by proprietors, the money deposited with it by customers, and such rights to demand money as will be accepted from the banks in lieu of money itself. Whatever expands the credit of the bank, *i.e.*, the extent to which rights to demand money from it will be accepted, permits the increase of its profit. Whether this be done by giving the person to whom money is due a credit in its books, or by paying him in notes, is, in some respects, a matter of indifference. Every book credit accepted in lieu of money payment, every note in circulation, by augmenting the purchasing power of a bank, becomes tantamount to a loan, in the latter case always without interest, had by the bank from the public. This need nowise imply that the issuers of notes do not share their gain with the people, and it does not imply that banks alone reap the advantage of economizing the $30,000,000 or more of real capital which, without some other substitute, would be needed to effect the Canadian exchanges in which bank notes are now used. But it does make it plain that each bank has a direct and powerful motive for expanding its note circulation by whatever lawful and reputable methods it may.

A little examination ought to make it equally clear that the possibility of this expansion is dependent upon the needs of bank customers. Canadian banks are prohibited by law from pledging, assigning or hypothecating their notes, and advances or loans made on the security of its notes are not recoverable from a bank. The only way for a bank to get its notes in circulation is to pay them over its counter in the ordinary course of business. It may exchange them for gold, pay with them the demands of depositors, or other creditors, or make advances in that form of its credit. Where the practice of keeping deposits with banks is common, and especially where interest is paid on deposits, the bank's customers are prevented by motives of prudence or profit from drawing out more notes than are required for their immediate purposes. No man will procure twice the amount of notes he needs to meet his payments, and run the risk of losing the unused half, when, by calculating his wants, he would avoid the risk and either save interest on the unnecessary part of a loan, or, in some cases, receive interest on the balance he leaves with his bank. Where, further, the banking habit is strong and banking facilities are as well distributed as they are in Canada, the customers of banks and those in exchange relations with them, comprise practically the entire commercial, agricultural and industrial community. The means, for instance, which three or four hundred laborers need for their weekly or monthly purchase of groceries, and other goods, are provided at one stroke in supplying a manufacturer or contractor with notes for his pay roll. The bills which the farmers of a certain district use to buy their winter supplies, or in which they realize upon their grain, are issued through a few advances to the produce shippers operating in that district. Since the process is quite the same in an indefinite number of other cases, the whole country secures whatever expansion of the circulation may be required. The banks clearly have every motive to meet the need for increased note issues; it is quite as clear they cannot issue in excess of that need.

In no country, however, are the number and amount of the exchanges effected by bank notes in constant augmentation. The upward movement, if there be one, is not steady. The need for circulating medium at a given time may be greater than it was shortly before, exactly the same, or less. Particularly in North America, where the supply of important marketable commodities varies with the seasons of the year, are there marked differences between the commercial activity in different months, and extreme variations in the need for the means of payment. Contraction is an element as important to elasticity as expansion. In Canada, while the influence of foreign exchanges and international trade is not without force, the immediate causes of contraction are different, but quite as effective and automatic, and even more prompt. No man who keeps a bank account is going to hold bank notes or any other negotiable instruments of credit payable on demand, after the need for their use in exchange is passed. Either he wishes to avoid the risk of losing them, desires to convert them into interest bearing deposits, or with them discharges some obligation to the bank on which he is paying interest. In any case he has substantial motives of gain for bringing the notes to the bank which has his account. The action of a note holder, who has no bank account, may be disregarded; if a bank note is used in making payments, it is destined, with all necessary promptness, to reach the hand of some one who has a bank account, and will deposit the note to his credit if he feels no need for its present use.

The next and final agents in the process of contraction are the banks themselves. Though it is not obliged to do so, any Canadian bank will receive in payment the notes of any other bank of the system. In so doing, the bank is protected from loss, and is able to serve not only the customer's convenience, but also its own advantage. The total amount of notes outstanding at any one time is limited, as we have just seen, by the needs of the public of that form of circulating medium. If there were no other substitute for money, the extreme limit of the note circulation during a given period would be the total amount of exchanges then to be performed, divided by the average amount of payments effected by a given sum of bank notes. But there are other substitutes for money and the actual limit is considerably less. A comparison of the facts in different countries, *e.g.*, England, France and Scotland, shows that, while the amount of the exchanges varies with the condition of trade, in *what* exchanges a community may use bank notes depends upon the traditions, prejudices and habits (as accommodated to legislation)—the business custom, in short—prevailing within it. Business custom changes, without doubt, but the changes are so slow and comparatively slight as to permit us to conclude that for any one time the limit of a bank note circulation is not only predetermined, but also practically independent of the amount of other money substitutes in use.

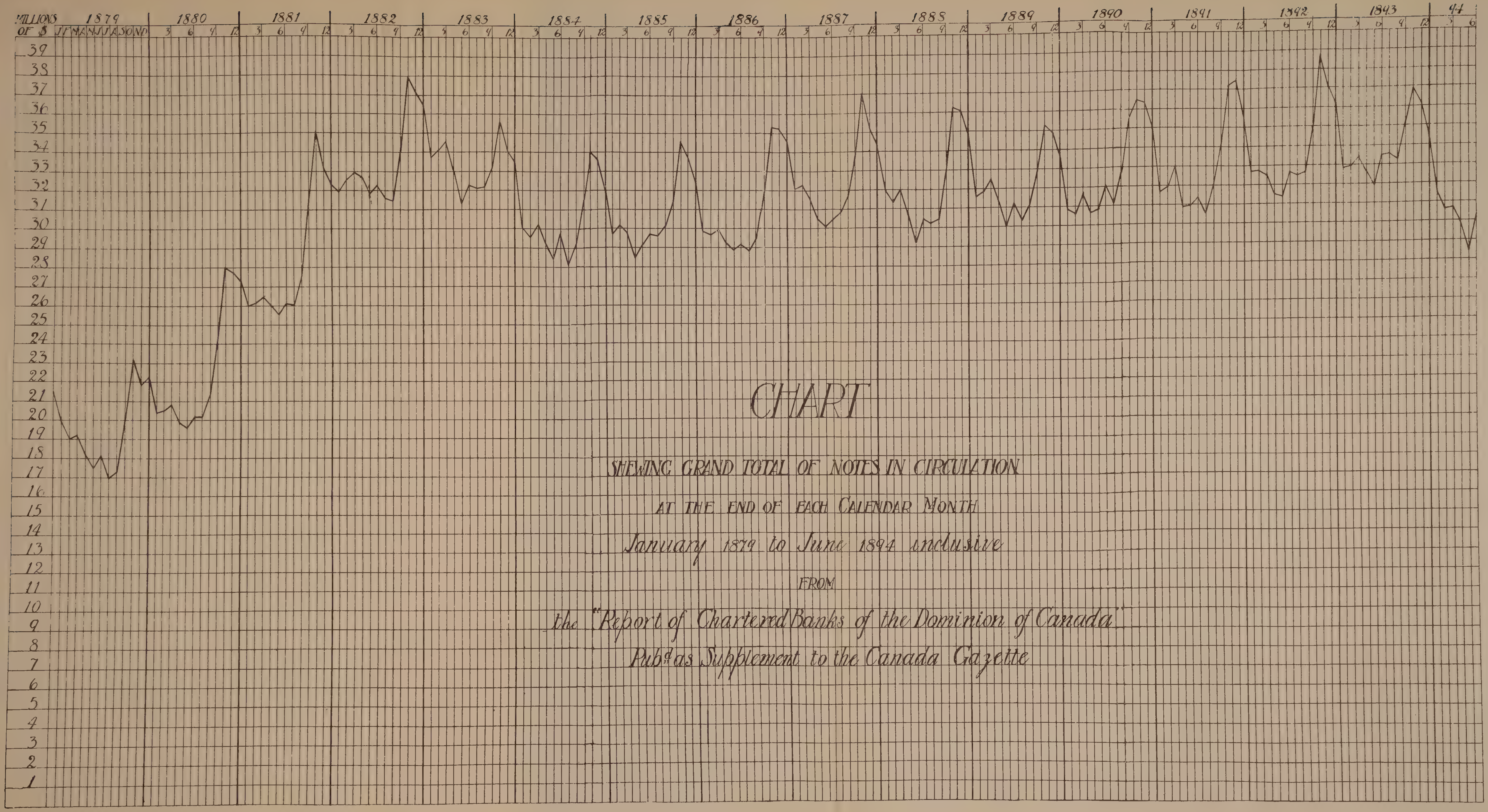
From the banker's point of view, the note circulation is a form of credit through the enjoyment of which his interest bearing investments may be increased. His note issue is the source of a profit, which, at a given time, could not be obtained in any other way. This being the case, it is to the undoubted advantage of any one of the thirty-eight banks now doing business in Canada, to supply, so far as the law allows it, the limited and predetermined demand for bank note currency with its own issues. Now, the bank's only way to put notes in circulation is to pay them over its counter. It receives each day, however, the notes of other banks, paid in as deposits, or in liquidation of loans. Such notes are evidences of non-interest bearing debt. The bank finds it essential to convert the debt either into cash, or into some productive investment. The notes may be collected either by presenting them for redemption, or by paying them out to the public. On the latter supposition the public reimburses the bank by exchanging for the notes, either payment, or some other right to demand payment.

But for the Canadian bank there is a more important consideration than mere repayment. The circulating medium of the country, so far as it consists of bank notes, constitutes a volume of credit for which each bank is competing to get the largest possible share, in order to obtain in this form the largest possible loan without interest. The manifest policy of the bank, therefore, is not to collect the debt from the public, but to present the notes for redemption by the bank which issues them. By this means, the bank can cause a slight contraction in the total note circulation, and gain the chance to use its own paper in meeting demands for expansion. Sheer self-interest impels each bank to demand prompt and daily redemption of all the notes of other banks that have come into its tills. Unlike some benefactions, the act of paying the notes of another bank to the public has a real and measurable value. When the amount of its own notes outstanding approaches the authorized maximum, and further issue makes the bank liable to a fine, it has the option of paying out all the paper that comes into it, or to circulate exclusively the notes of some one bank whose issue is further within the legal limit. If the latter course is adopted, it receives compensation for the service in some form, the usual method now being for the bank whose notes are circulated to allow the circulating bank to delay the deposit of funds in exchange, for a period of two weeks after the paper was received. As the average " life " of a note—the time elapsing between the issue of a note and its redemption—is probably in the neighborhood of four weeks, the profit on the circulation is thus divided, the bank which is obliged to circulate another's notes seldom receiving more than one-half. To pay out his competitor's notes in the ordinary course of business is to act as a broker without charge, or at a reduced charge; to hold them is to loan to his competitor without interest. Either service is a form of altruism in which the Canadian banker will never indulge so long as he can issue notes of his own.

Thus the machinery for expansion and contraction of the Canadian bank note currency is efficient, automatic and complete. The impulse in either direction is the silent, certain force of self-interest. The banks gain in supplying the public's need for augmented circulation; the public gain in returning unnecessary notes to the banks; and whenever such notes are not those of its own issue, each bank finds its profit in presenting them for redemption. Every one of the five hundred branch banks in Canada is a competitive agent for expansion; every one, from like motives of gain, is an active worker for contraction. In either direction the operations of the banks are wholly dependent on the needs or action of the public with whom they are so closely in touch.

What may logically be expected of the Canadian system of issue is confirmed by examination of the facts as to the notes of chartered banks in circulation at different dates since the 31st December, 1878. In Appendix III there is a table showing the exact amount of the total bank note circulation reported to the Government on the last juridical day of each month since the 31st January, 1878. But every immediate purpose of the table is served, in a more graphic and comprehensive way, by the chart opposite, showing the varying heights of the circulation on the last day of each month of the last fifteen years, by means of points taken on the vertical axes, and connected by lines for the sake of clearness. A casual glance proves perfectly the rhythmic fluctuations of the circulation in harmony with the movements of Canadian trade. It shows how the general level of the circulation rises or falls in accord with the general prosperity and activity of commerce, how the expansion to meet the needs of the autumn and early winter are greater in one year than another, how quickly and regularly the volume of the currency is contracted in January, how it remains stationary or gradually falls still further in the months of the spring and early summer, and how, from the end of July on, the process of "moving the crops" is facilitated by an expansion in the bank note circulation, usually from 19 to 24 per cent., but sometimes as low as 14 and as high as 42 per cent. of the minimum during the year.

As they represent only the circulation on the last day of each calendar month, the figures do not, as a rule, exhibit the maxima or minima actually reached, and so do not fully show the elasticity of the currency. They are, further, merely typical, and do not represent the average circulation in the months with which they are connected. They fail, also, to indicate the different movements in different provinces. But separate tables for the banks domiciled, *e.g.*, in Quebec, Nova Scotia or New Brunswick, would



CHART

SHEWING GRAND TOTAL OF NOTES IN CIRCULATION

AT THE END OF EACH CALENDAR MONTH

January 1879 to June 1894 inclusive

FROM

the "Report of Chartered Banks of the Dominion of Canada"

Pubd as Supplement to the Canada Gazette

be just as useless for this purpose. The business of many of the banks is carried on in several provinces. Their activity more or less covers the entire national field, and the circulation of a single bank is often affected by as many compensatory or opposite influences as the total circulation of the whole banking system. Moreover, there are no banks with head offices in Manitoba or the Northwest Territories, and only one, with six offices, has its principal Canadian establishment in British Columbia. Yet there are seven other branches in British Columbia, each issuing the notes of its parent bank, nineteen branches in Manitoba and eight in the Northwest Territories. A table by provinces would be utterly misleading.

In one respect the arbitrary choice of the days for which the circulation is indicated ought to lend some interest. When we speak of a late or early season we might say, more clumsily no doubt, that the beginning or end of the agricultural, fishing or lumbering year has not coincided with the usual point in the calendar year. The differences in the lines of the chart for different years show that the movements of currency are automatically adjusted to the needs of the particular times in the industrial year which happen to correspond with the last day of each calendar month. The proof of elasticity is varied, cumulative and conclusive.

It is precisely in point of elasticity that the Canadian bank note currency is superior to such a circulation as the bond-secured notes issued by the National banks of the United States. The rigidity of the latter currency, the almost complete lack of relation between its volume and the currency requirements of commerce, have been too frequently pointed out in the preceding pages, and are too notorious facts to need elaboration. The proof can be found in almost any treatment of the question ; the pages of the *Proceedings* of the American Bankers' Association have bristled with it for five years and more ; the statistics in the Reports of the United States Comptrollers of the Currency establish it beyond a doubt ; and in these last days, the American bankers themselves have united to agitate the reform of their own upon the lines of which the Canadian system of issue is one of the best examples anywhere to be found.

Yet every good quality characteristic of the National bank note pertains to the Canadian issues. They circulate at par throughout the land, not because they are a legal tender to any bank, but because (*a*) the bank which issues the note must provide for redemption at a convenient and accessible point in each of the seven provinces of the Dominion, and (*b*) the possibility of converting a note is subjected to the daily test of actual redemption. The notes of a failed bank, whatever the condition of its estate, will be redeemed, with interest at six per cent. per annum, within ten weeks of the day of its suspension. The notes of a failed National bank pass at par because their ultimate payment is certain; other banks are obliged to take them, and the process of retirement is practically the same as when the bank was solvent; those of an unfortunate Canadian bank are accepted because their prompt redemption with interest is guaranteed. Before the estate of a bank in liquidation, whether for insolvency or otherwise, is wound up, and the last dividend, if there is any whatever, is paid to the proprietors, money must be deposited with the Government in sufficient amounts to redeem, with interest for the first two months after suspension, all of its notes not yet presented and still outstanding. This regulation, so far as it prevents the operation of the statute of limitations upon bank notes, is similar to the requirement that National banks shall pay enough money to retire their circulation to the Treasurer of the United States, before they may withdraw the bonds which secure it.

To the holder of the Canadian bank note, therefore, it is a matter of indifference whence or when it was issued. The paper of the smallest bank is as good as that of the greatest. At all times, in every part of Canada, and under any circumstances, the note is not only worth its face value but will also be received at that by any bank. Security and convertibility are the great and really only merits of the National bank note currency. The Canadian paper has these, and it has, besides, the invaluable quality of elasticity.

§ 58.—ADVANTAGES INCIDENTAL TO THE CANADIAN SYSTEM OF ISSUE

As obtained by the Canadian system of issue, elasticity involves far more than the advantage of having a currency at all times adjusted to the need for it. Elasticity in currency means elasticity in the loaning powers of the banks. The need for augmented circulation is ordinarily coincident with an increased need for capital, either in production or in the operations of exchange. Particularly is this true of a country whose principal industries are extractive, a country, *e.g.*, in which agriculture and lumbering are relatively more important than manufactures. As economic instruments for the collection, safe-keeping and employment of capital, banks are ordinarily entrusted with funds not required for the immediate purposes of the owners. When more capital is needed in production or in carrying goods with the intention to market them, a part of it is obtained from the banks through the withdrawal of deposits by those to whom they are due. Another part is obtained from loans negotiated with the banks by those who prefer or are obliged to operate on borrowed capital. At the same time, however, banks are under advances to persons engaged in branches of industry or commerce in which the need for capital is comparatively steady.

One source from which banks supply borrowers' needs, the capital of their proprietors, is also comparatively steady. Another source, the money entrusted by depositors, varies according to the wish or interest of the depositors, and, for reasons just pointed out, in times of increased activity on certain lines is likely to be lessened. The banks may use a third source, roughly speaking, in two ways: they may give borrowers book credits for the amount of their loans, or supply them with notes. Instead of capital owned by the bank, the borrower is usually willing enough to borrow of its credit, or the depositor to accept of its credit in payment, provided he can get the credit in a usable form.

But book credits will not serve the purpose. From prejudice, habit or well founded preference, the lumberman wishes his monthly pay, the harvest hand his season's wages, and the farmer the proceeds of his grain and produce, in a convenient, unquestionable and easily transferable form. Money will satisfy them, but cheques, the value of which depends on the genuineness of signatures, and, to a certain extent, upon the unknown personal credit of the maker rather than on the well-known and ample credit of a bank, will not be readily taken. Bank notes, the title to which passes by simple delivery and the value of which is dependent on the credit of the public bank whose name they bear, are the only instruments of credit available for large classes of the transactions necessary, *e.g.*, to moving the crops or getting out the lumber cut. To meet the periodical and temporary demands for added capital caused by such operations, the banks must either pay out money or issue their promissory notes.

The abstract statement of the conditions is easily confirmed. The table below shows that in the first two months (August and September) of the annual expansion in Canadian trade, bank deposits payable on demand—the basis, that is, for bank credit circulating in the form of cheques—usually remain stationary or diminish, while the amount of current loans and notes in circulation rises until, at the end of October, both are considerably above the figures for the 31st July. For every year since 1889, the increase in each has been at least $3,000,000, except in 1893, when exceptional conditions, due to the American crisis and the contraction in many branches of Canadian trade, caused a diminution in current loans.[1] The

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[1] TABLE FOR COMPARISON of the amount of notes in circulation, deposits payable on demand and after notice, and current loans, at the end of months prior to, during and after the annual period of greatest expansion in the Canadian bank note currency (00,000 omitted):

	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.
1890	$	$	$	$	$	$	$
Notes in circulation	31.2	32.7	35.5	36.5	36.3	35.0	31.7
Deposits payable on demand	54.6	53.8	54.7	57.5	53.1	53.7	52.7
" " after notice or on a fixed day	76.6	77.1	77.7	78.2	79.9	80.3	81.7
Current loans	150.8	151.2	153.1	153.0	153.5	153.2	151.1
1891							
Notes in circulation	30.6	32.0	34.1	37.2	37.4	35.6	32.7
Deposits payable on demand	59.0	58.5	59.6	58.5	60.4	62.6	58.6
" " after notice or on a fixed day	84.6	85.5	86.0	88.5	89.3	90.1	92.3
Current loans	184.5	184.1	185.9	188.7	187.8	186.6	184.0
1892							
Notes in circulation	32.5	32.6	34.9	38.7	37.1	36.2	32.8
Deposits payable on demand	66.5	64.7	65.7	66.4	68.3	68.7	67.4
" " after notice or on a fixed day	93.8	95.0	98.8	99.9	101.2	101.5	102.1
Current loans	189.5	186.3	188.2	194.1	197.1	198.5	197.2
1893							
Notes in circulation	33.6	33.3	35.1	36.9	35.1	34.4	30.6
Deposits payable on demand	64.6	61.4	61.2	62.5	62.9	62.6	60.1
" " after notice or on a fixed day	106.4	105.0	104.0	103.5	104.4	107.9	108.9
Current loans	206.9	205.9	204.6	204.8	202.0	200.4	198.0

figures, of course, are only for the last day of each month and they represent only net results. The item of deposits, for example, would be much less if the figures reflected the entire amount of funds withdrawn. The apparent effect of the tendency of depositors is somewhat reduced by the practice of borrowers to leave negotiated loans on deposit with the banks until they need to use the funds. For some borrowers the season of active operation arrives later than for others.

What would happen if the banks were obliged to provide money, or notes (like national bank notes) which have cost them value to an equal or greater amount, is well illustrated year after year in the United States. In the autumn those who trade on their own capital draw on their deposits with the banks ; the needs of the large class of steady discount customers remain about the same ; and at the very moment when deposits are falling off, new needs for advances arise from the greatly augmented activity of trade in grain, pork, cotton and produce. The banks, in short, find the demand for loans strengthened ; their ability to meet it, at the best unimproved, and more than likely, much impaired. Under such conditions the rate of discount inevitably rises. Fluctuation in the rate of discount is only one phase of the ensuing inconvenience and expense ; there are, besides this, the annual flow of currency inland from New York, that costs at least one-tenth per cent. of the amount of the remittances, the currency famine frequently arising in that city during the movement of crops to the markets, and in consequence, as frequent arrests of the forward movement of products, hardly less complete and sudden than those due to freight blockades or railway strikes.

In Canada, on the contrary, banks are able to supply the fluctuating demands of depositor and borrower with bank credit in a form that can be used. Each is paid in notes ; resources employed in the less variable departments of discount business are nowise diminished. The purchase, transportation and marketing of the crops are accomplished without loss or cost to the banks, without the rise of the rate of discount, and with a high degree of efficiency, economy and promptness. The annual expansion in the country's business tends rather to ease the situation than to tighten loan markets. The goods are brought forward so rapidly and realized on so soon that the banks, whose loans to grain buyers, produce shippers, millers, etc., are generally secured by such documents as warehouse receipts and bills of lading, find that these advances, as a class, are among the most quickly repaid of any they make.

So when the circulating notes in which the advances were made begin to come in, the banks, if redemption should be called for, always have the means to meet it. Borrowers have already discharged their debts by drafts on the Canadian produce markets, or if they happen to be in the export trade, by exchange upon American and British correspondents. In actual practice, however, the additional circulation is returned to the banks in the form of deposits. The public do not demand a money redemption. No bank, to be sure, receives only its own notes from these depositors. What notes of its own are received, are retired by a simple credit to him who pays them in. The notes of other banks thus acquired are used to offset those of its own which they may receive from their customers and present in the daily exchanges as claims against the issuing bank. The process of contraction, therefore, is almost as easy and as costless to a well managed bank as that of expansion. Final payment of the autumnal increment to liabilities is brought about, not through immediate redemption in hard money, but through the gradual withdrawal for the owners' uses of the deposits by which the notes were first retired from circulation.[1]

Compared to the other liabilities on which banks trade, the note circulation, it is true, seems of minor importance. During the last four years, for example, the highest amount outstanding has never been much more, and usually less, than a fourth of all the public deposits in the banks at corresponding periods. At first thought it seems unnecessary to emphasize so strongly the advantages derived from the note issue as a means of expanding loanable credit. But the answer to the objection lies in the simple fact that the autumn needs form the *last* increment of demand in the loan market. If the banks were unable to supply it with notes, this demand would be turned upon discount resources already employed, and the cost of loans would be higher for the time, not only to new borrowers, but to all the old ones as well.

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[1] For illustration of this last fact, the table lately given does not include a sufficient number of months. The other statements, however, may be verified by it, although it must again be remembered that the figures represent only net results, are affected by a variety of influences only remotely connected with the forces here discussed, and refer only to seven days arbitrarily chosen in each year.

There are still other reasons why elastic issue upon their general credit is one of the most beneficial functions of the Canadian banks. The remark is offered with all regard to the extraordinary growth of deposits exhibited in Appendix I, and to the fact that in April, May and June, 1894, the circulation fell below the average for fifteen years. It is perfectly true that in the most progressive Canadian communities, cheques payable to order, as safe, convenient and efficient media of exchange, are fast supplanting bank note currency; that the establishment of clearing houses facilitates the process; and that the profit from circulation paid out in the chief cities is considerable only by reason of the large volume of retail transactions in which bank notes are still the medium. The average life of the notes issued in cities is comparatively short; a bill paid over the counter of a Toronto or Montreal office one day, is tolerably certain, in two cases out of five, to come against the issuer in the exchanges of the next day but one. But banking facilities are not required by the most progressive communities alone; they are at least proportionally essential to districts less advanced.

In many of the less advanced or less wealthy communities, there is still the discount business, accumulation of deposits, and other sources of banking profits that would be sufficient to support local banks. What additional advantages are derived from the establishment of branch banks to meet these needs have been pointed out in § 56. There are many other Canadian communities, however—communities which we may describe as on the margin of the supply of banking facilities—in which the profits of the loaning business and the brokerage on deposits combined would not pay the expenses of a local joint-stock bank. The conditions on which, through the establishment of branch banks, they do secure the facilities necessary to their development, are the peculiar possibilities of profit and economy under the Canadian system of issue.

Where notes are based on the general credit of the promissors, an increase in a bank's circulation is a means of additional profit. Now, where there are no banking facilities in the immediate neighborhood—in villages and the surrounding country whence both villages without banks, and the smaller towns where branches have been placed, chiefly derive their support—payments are very seldom made in cheques. The credit economy of such localities and districts, is still, to a great extent, in the first stages of development. Among their people and in retail trade, promises have supplanted money only in the form nearest like money, viz., bank notes. Access to banks is less convenient. Persons receiving notes are often unable promptly to make a deposit, or prefer to hold a certain quantity of this currency in provision against payments for which distance from the bank, custom or the preferences of the payees, make cheques unsuitable. Then, too, the habit of relying upon banks for the safe-keeping of spare cash is less strong. So the " life " of a note is much longer in the country and country towns than in the cities. While the amounts circulated by branches in sparsely settled or newly opened districts, are small compared with the payments made by city offices, considerable proportions of the bills issued for use, *e.g.*, in paying the wages of farm hands and lumbermen, are neither seen nor heard of for average periods of from two to six months.

By establishing offices in the country districts and newly settled towns, and by supplying the local need for loans, cashing drafts and otherwise assisting in the transfer of money, a parent bank is able to get this longer, larger and more profitable circulation for its own paper. Through judicious support of the local trade and industry, the branch at the same time extends the field for safe and profitable discount operations. The greater number of exchanges consequent on this development improves in a manner the opportunity for increasing the note circulation; by providing a place of security for spare cash, and by paying interest on sums entrusted to it, the bank stimulates accumulation and promotes also the growth of its deposit business.

The possibility of economy under the Canadian system of issue and of branch banking lies in the use of unissued notes as till money. The Canadian note, like others based on the credit of banks and not secured by the pledge of particular assets, has no value, except the cost of printing, while in the possession of the bank whose promise it bears. It is the evidence of a contract to which, as yet, the promissor is the only party. Unissued notes represent no more expenditure, no more wealth, than the result of a morning spent in writing IOU's with the intention some time to exchange them for value. Yet unissued notes, except as small change, and for the purposes of the customer who occasionally requires a gold piece, serve every use obtainable by any branch bank from money itself.

Banks have two principal classes of payments to meet, payments to the public and to each other. Except when situate at the financial centres, Canadian banking offices usually settle with each other by means of drafts upon correspondents in those centres (Toronto, Montreal, Halifax). They need, then, no localized supply of money for these payments, but a sufficient reserve or balance in the place where drafts are due. Payments to the public are of two sorts. Payments required for the purpose of remitting funds to outside localities are made by drafts upon the place to which the remittance is desired, or by drafts upon the financial centres. The only purpose for which actual money would be used, *i.e.*, payments to the public in the locality where the branch is situate, is satisfactorily served by bank notes, a form of payment which costs the bank nothing to keep. The security of this circulating medium is so complete that notes are freely accepted by the public, even at times of runs upon deposits. Note redemption is brought about either by deposits of its own notes made with the bank, or through the settlement of balances exacted by competitive banks. The one method merely effects the metamorphosis of the credit accorded the bank by its customers. When balances in the daily bank exchanges are against it, a solvent bank in good repute can always effect redemption in the other method by drafts upon the financial centres.

Under the Canadian system of issue, therefore, banking is carried on without the necessity and expense of localizing at each office a money reserve, and sufficient till money of intrinsic value, to guard against all contingencies. It does not follow that the reserves are weaker; on the contrary, they are quite likely to be stronger. Placed, as they are, at the centres, reserves are available in their entire strength for meeting demands wherever such arise. Furthermore, settlements between the banks are accomplished with a higher economy of the use of money. Practically none passes between the banks outside the centres, and at the centres money payments are only used to discharge balances. The gain in efficiency of the reserves is supplemented by economies in their maintenance. Where the market for securities is strong and active, part of the reserves may be invested in first class bonds and stocks, or loaned at call on the pledge of such bonds or stocks. The cost of holding large amounts of idle cash as protection against possible dangers is thus materially reduced in a way scarcely possible when reserves are localized; local markets could seldom be relied upon for the prompt conversion of securities.

How great is the saving of interest on the hard cash which, without the ability to use unissued notes, the banks would be obliged to hold as till money, is not particularly difficult to calculate. A "suit of notes," *i.e.*, the quantity of bills prepared, signed and delivered to the various offices of a bank, is, as a rule, from one and a half to two times as great as the highest proportion thereof ever in circulation. The advantage to the banks, and here also, to the public, is not due to a new profit, but to the economy of real capital possible by use of notes as till money. If the banks were deprived of this advantage, it is safe to say that they would be obliged to withdraw some $10,000,000 to $15,000,000 now employed in the trade and industry of Canada.[1] This, be it understood, is quite independent of the $30,000,000 to $38,000,000 more that the banks would necessarily withdraw if they were obliged to secure their notes by pledge of bonds, or were subjected to almost any other regulation under which it would cease to be practicable or advantageous to use unissued notes to fill their tills.[2] Without the saving on till money and the extra gain from rural circulation, the banks could not serve the country so cheaply as they do now. With the sources of their advances partly diverted to other purposes and partly dried up, they would be obliged to raise the rate of discount or begin a long course of personal discrimination in supplying the needs of their customers.

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[1] *Cf.* R. H. INGLIS PALGRAVE, "Analysis of the Evidence taken before the Select Committee of the House of Commons on Banks of Issue, 1875," London, 1876, p. 11; also Replies to Questions 3801-3, 4408-9, in the evidence itself.

[2] Under the so-called "Baltimore plan" lately approved by the American Bankers' Association, the American banks and public would enjoy the increase of loanable funds possible under a system of issue against the general credit of the promissors, but many of the banks would be prevented by the very activity of their

Many communities enjoying the support of banks as wealthy, well managed and strong as those in the largest cities, could no longer have such facilities within their midst. Deposits at places "on the margin of supply" are often insignificant and the brokerage on them trifling: the profit on loans and discounts, even with the additional charge of one-half to one and a half per cent. on account of the inferiority of the local security, is comparatively slight. Unsupplemented by profit on circulation and diminished by interest on till money, the two together would often fail to pay the salaries, postage and rent of a branch. Without the saving and the extra gain effected under the Canadian system of issue, the extension of branch banking would have been neither so wide nor so thorough as it has been.[1] Peculiar possibilities of profit have induced the banks to establish new branches, and competition between the banks has forced them to divide the profit with the public.

§ 59.—RESERVES

Gold, as we have seen, is no part of the mechanism of Canadian banking operations outside the centres. Except for making change under five dollars, there is a like economy of other

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business, from sharing the advantage of costless till money naturally incident to such a system. Each bank would receive only the amount of its authorized circulation in bills prepared by the United States Government, and as the limit proposed for each is only half the amount of its paid-up capital stock, it is probable that a great many of the banks would be able to circulate up to their limit and thus have no notes left for their tills. One way to secure the advantage would be to transform the "surplus," in many cases now very large, into capital. But when a bank's operations are confined to a single locality and one office, till money becomes practically indistinguishable from cash reserve. The importance of economies in till money is not so great as under a system in which the issue of notes against general credit is scientifically combined with branch banking.

[1] B. E. WALKER, "Banks, Canada," in INGLIS PALGRAVE'S "Dictionary of Political Economy," New York, 1894, Vol. I., p. 100. "The proportion of deposits to capital is still so small * * that branch banking could not have reached its present comparatively perfect development, but for the note issues being specially secured. It has been argued that if this power was taken away or replaced by a specially secured issue, perhaps one-half of the branches would have to be closed."

kinds of money, *e.g.*, Dominion notes, for which gold or its equivalent must be given. We have seen further that the chief banking reserves of the country, as in Great Britain and the United States, are concentrated and kept in the principal money markets of the land. Five-eighths of all the banks in Ontario and Quebec have their head offices either in Montreal or Toronto, and five-eighths of the Nova Scotia banks have their principal establishments at Halifax. The proportion of banking capital managed from the centres is much greater (*vide* § 56). So, too, with reserves. Though it was more or less distributed among their branches, these twenty institutions controlled $17,063,686 of the $20,978,623 of specie and Dominion notes held by all the banks in the country on the 31st December, 1893. On the 30th June, 1894, the proportion was $17,647,555 to $21,455,217. Banks with head offices elsewhere situate either have branches of their own in one or more of these cities, or keep balances on deposit with other banks there.[1] Four banks, one in Toronto, two in Montreal and one in Halifax, apparently have the lion's share of the business as bankers' banks. On the 31st December, 1893, they had $1,845,057 of the $2,420,874 reported as "Deposits payable on demand, or after notice, or on a fixed day, made by other banks in Canada"; on the 30th June, 1894, $1,800,214, out of a total of $2,352,505.[2]

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[1] This statement, like many others of a similar generality, needs some qualification. The banking development of Canada is not altogether homogeneous, any more than the climate, the race types, the trade and economic interests in different parts of the country are cast in one mold. The trouble is, the very distance of the several provinces and of the areas of thickest settlement, one from the other, presents a serious obstacle to Canadian unity. In many respects the old Provincial separation still survives, and there are a few banks the farthest limit of whose operations are the boundaries of their respective provinces. The business of the Maritime Provinces is quite distinct in numerous important details from that of Quebec, and in spite of their long union, Ontario and Quebec could not, without exceptions, be described as one undivided field of activity. Of really characteristic banks of the Canadian system, however, every one of the larger provinces, except New Brunswick, perhaps, and Manitoba, has one or more principal establishments. These corporations have placed offices in provinces other than the site of their head offices, and some of them have opened up in British Columbia, Manitoba or New Brunswick; others again in two or three provinces besides their own. It is chiefly such banks of a national or semi-national activity and importance that should be kept in mind while the Canadian banking system as a whole is under discussion. Still, remarks about them, except those relating to territorial extension, generally apply with scarcely diminished force to Canadian banks of a more local character.

[2] The proportions for each of the four banks were:

	on the 31 Dec., 1893	30 June, 1894
Bank of Montreal	$695,644	$703,460
Canadian Bank of Commerce	275,966	273,748
Merchants' Bank of Canada	753,661	588,601
Merchants' Bank of Halifax	119,786	234,405
Total, 4 banks	$1,845,057	$1,800,214
Total, 39 "	2,420,874*	2,352,405

* Less Commercial Bank of Manitoba, $520

How far the Bank of Montreal is the Canadian Bank of England," appears in respect

But there is this difference, already noted in another connection, between the Canadian organization of credit and that of Great Britain or the United States. The centralization of banking management permits practically the same disposition of the banking reserves during critical periods as in ordinary times. Conflict of interest between urban and rural banks, and the institution of dangerous inland drains, are evils of panicky times in these other countries that Canadian banks are usually able to escape.

The arguments for requiring banks always to hold money reserves equal, at least, to a fixed proportion of their liabilities, are hardly a part of our proper subject. There is no such obligation laid on the Canadian banks. It may be possible, by regulations of this type, to compel certain loosely managed banks to keep on hand more nearly an adequate supply of cash, but behind the policy there lurks the theory that legislators better understand the right conduct of banking than bankers themselves. The arguments, valid in Canada, against a fixed reserve, have been given at length in our statement as to certain proceedings preliminary to the Bank Act revision of 1890. To recapitulate here, the most obvious is the principle that a banking reserve is a resource to be used rather than to be gloated over and talked about, just as fresh troops, if available, are used to turn the tide of a hard fought and undecided battle. The military analogy is clear. Aside from this consideration we have to note the false security induced; the fact that the requirement has not been lived up to in the United States; the rise of the rate of interest occurring when reserves, *e.g.*, in the city of New York, are reduced to near the legal minimum; the necessarily somewhat greater instability of commercial confidence under such regulations; and the sufficiency, proved by Canadian experience, of the first lien as security for the ultimate payment of note holders.

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to the item of bankers' balances from the figures just given. It is, to be sure, the oldest and by far the largest bank in Canada. It is the Government's depository and fiscal agent; in the money markets of Chicago, New York and London, the three great centres of commerce for English speaking races, it is a factor whose importance may justly be termed considerable. In Canada its control of enormous resources makes the Bank of Montreal a tower of strength to the banking system. It commands the highest respect, the unwavering confidence and the implicit reliance of the entire country. But it has no peculiar privileges, no qualified monopoly like the Bank of England, and its former predominance is somewhat lessened by the fact that there are now two other banks whose combined resources are nearly equal to its own. Many of the other banks also, are now richer and more powerful, compared to the Bank of Montreal, than were its competitors, *e.g.*, in 1867.

Some illustrations have been given of the manner in which the reserves of well managed banks vary in height at different times. They also vary in composition according to the circumstances of different banks. A bank with its head office in Hamilton, Ottawa or Sherbrooke, needs to keep its principal reserves, not as money at its principal establishment, where payments to the public are chiefly in notes and to the banks in drafts, but as a balance in Montreal or Toronto, where the principal demands upon its reserves are payable. And among banks situate in the centres, there is the greatest diversity as to business. Some specialize in agricultural business; some have a high proportion of lumber accounts; some enjoy the custom of large importing houses with heavy customs duties to pay from time to time; others may be characterized as largely tradesmen's banks, and others are heavy dealers in exchange, or again, the proportions in which various banks combine such classes of trade are different for each one. Some banks have enormous balances loaned at call in the United States, others hardly any whatever. For some the amount of deposits payable after notice or on a fixed day, is twice, for some thrice, for others four times, the amount payable on demand. Some have issued notes close to the authorized limit, two or three circulate barely one-fifth of what they lawfully may. One bank, at least, has heavy Government deposits, and is constantly called on for large payments of hard cash; others have no Government account whatever, or only the small deposits they have obtained as temporary keepers of revenue where the fiscal agent has no office.

What legislator, then, what banker, or what convention or committee of bankers can rightly fix the proportion of specie and Dominion notes a bank shall always hold against its liabilities? The true proportions are as many as the banks themselves, as diverse as the character of their business on both sides of the account, and as changing as times and circumstances. At best the establishment of a minimum reserve is an attempt to do by legislation what legislation cannot accomplish. Laws may forbid corporations to engage in any but a strictly banking business, but for the wise conduct of that business, the only real provisions are the bank's instincts of self-preservation, and the enlightened self-interest of shareholders and directors in choosing efficient, experienced men to manage their trust. Upon directors and managers alone depends the choice of a bank's investments; according to the wisdom or folly of their choice—the value and liquid nature of its loans, or the depreciation and fixity of its investments—the bank will prosper or perish.[1]

For the four and one-half years preceding the 1st July, 1894, the amounts of specie and Dominion notes held by all the chartered banks at the end of each calendar month have averaged 9.11 per cent. of their total liabilities on corresponding days. The lowest percentage shown by the Bank Statement was 8.; the highest, 10.08 per cent. This, it will be observed, is quite as high as the proportion of money kept on hand by the English joint-stock banks, although for most of them gold and its practical equivalent, Bank of England notes, are the only till-money and form parts of their business machinery. Of the entire banking reserve, it is needless to say, money forms only a part; the immediately available assets held by the Canadian banks, like those held by the English banks, are in much higher ratio to the total liabilities of the system. Thus, the items which may be taken, in a rough way, as constituting the banking reserve of all the Canadian banks were reported at the following amounts:

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[1] *Cf.*, on the question of reserves, the general principles laid down by the eminent German authority, Dr. Adolph Wagner, in his treatment of "Der Kredit u. das Bank Wesen." First as to the reserve of the bank of issue: "The only theoretically and practically correct covering for notes (deckung) is the one obtained by banking operations, (bank mässige); that is, the covering with cash in proper combination with easily realized, short term, rights to demand, *i.e.*, discounted notes. But the correct height of the specie reserve, or its minimum, cannot be determined for the bank of issue either in absolute figures or as a proportion of the outstanding circulation. It depends on the general conditions of credit, on the credit of the bank, on the state of the money market, on the conditions of industry, commerce and politics, on the course of foreign exchange, on the periodical need of commerce for currency—upon which the value of the smallest notes is also influential. The cash reserve must also suffice for any unusual return of notes to the bank for redemption. It can never be considered alone, but only in connection with the other assets, especially the discounts, and must naturally be higher for a bank of issue, when at the same period it holds large amounts of deposits either on time or at call."

Next, as to the cash or money reserve: "The Cash Reserve. Its proper amount is dependent upon the time which the bank's liabilities have to run,—as to those due on demand (notes and deposits), upon their variable amount and the time of the actually resulting demands—and further upon the demands for credit to which the bank must, in the course of business, regularly respond. With deposits at call or short notice, the reserve must be larger than with deposits at long notice. Further, the conditions of the time, the state of politics, of the money market, the course of the foreign exchanges, etc., etc., are to be regarded. Now a larger, now a smaller reserve need be maintained, especially when the other assets are easily and speedily available (realizable). * * * * The cash reserve at any one time really adequate can only be determined by the bank itself."

Vide Schönberg (editor), "Handbuch der Politischen Œkonomie," Tübingen, 1890. Vol. I., pp. 462 and 438.

	31st Dec., 1893	30th June, 1894
1. Specie and Dominion notes	$20,978,623	$21,455,211
2. Balances due from agencies of the bank or from other banks or agencies in foreign countries	18,229,248	16,650,822
3. Balances due from agencies of the bank or from other banks or agencies in the United Kingdom	3,540,220	3,086,167
4. Dominion Government debentures or stock	3,191,383	3,157,413
5. Canadian municipal securities and British provincial or foreign or colonial, public securities	9,981,680	10,859,394
6. Canadian, British or other railway securities	6,692,856	8 240.707
7. Call loans on bonds or stocks	14,236,629	14,600,915
8. Deposits payable on demand, or after notice or on a fixed day made with other banks in Canada	3,630,883	3,287,255
Total	$80,481,522	$80,337,784
Total liabilities	218,622,965	221,292,707
Percentage of reserve to liabilities	36 85	36.30

As might be expected, the proportion of the various components to the whole reserve, and of the reserve to total liabilities, varies widely as between different banks. Rather interesting comparisons and a substantial basis for criticism could be derived from a table showing month by month for a series of years the proportion of quick assets held by the several banks against their total debts.

There are two objections, however, to the inclusion of such a table here, its great bulk and the ambiguity of certain items in the form of the statement to the Government. Some call loans *e.g.*, may be speedily realized only at a considerable cost. Only for the bank to which they belong is it possible closely to estimate the amount of its assets immediately available, either for conversion into cash in Canada, or in the United States and Great Britain, as a balance against which to draw bills of exchange. This view of the question is admittedly somewhat doubtful. Any banker whom one addressed would probably deny its pertinence to his own bank and aver that the quick assets held by his institution were of the gilt-edge type throughout. Very properly, too, he might express ignorance as to the position of his competitors in this respect. A more reasonable view of the question would be to take it for granted that public securities, railway bonds and call loans are worth approximately what they are set down for, and usable whenever required.

On this supposition I have made a study of the Bank Statement for the last five years, with particular reference to reserves. For most of the banks the results form highly creditable indications of the watchful care of managers in guarding the stability of their institutions and in keeping ample provision for every contingency. But the reserves of a few banks have almost regularly been below the point which the managers of other banks, not too dissimilarly situate, have seemed to regard as both prudent and safe. This fact—the common property of all who take sufficient interest in banking, carefully to study the monthly statement—is one reason for the opinion elsewhere advanced (§ 55), that the number of Canadian chartered banks may be less in the future than it is to-day.

One of the most beneficial minor effects of the Bank Circulation Redemption Fund has been the new community of interest among banks which grows out of their common liability with respect to the currency. It is believed that this advantage is hardly less than that derived in the United States from the plan of combined reserves, but it is realized in a somewhat different way. The effects of the fund chiefly appear in the greater interest taken by banks in each other's welfare, the stronger solidarity in maintaining confidence, the inclination more promptly to grant deserved assistance, and the more powerful motive to act as mentor in recalling somewhat errant banks to the paths of sound policy. The strong banks have themselves the power to bring flighty ones to time, *e.g.*, in the last resort, by refusing to take cheques upon them. Other sanctions are less severe; banks not relatively so strong are frequently in need of loans or other accommodation, and a word or two from the grantor of the accommodation is generally sufficient.

But the day may come when a bank or banks, who have heeded neither friendly warnings nor safe principles, and who have long lacked reserves by others thought adequate, will be unable without help to make the payments so rigidly exacted by Canadian banks in settlement after the daily exchanges. And then it can hardly be expected that other banks will consent to prolong the existence of competitors who have constantly borrowed at more and loaned at less than the current rates, who have "persistently built upward and outward the fabric of credit while persistently whittling away its base." In a system where the security of banking operations, within, of course, the field where banks may work, is almost entirely dependent on the skill and sagacity of banking management, the presence of institutions in anywise badly managed is an annoyance to well governed banks, and a menace to the stability of commercial confidence. It not only aggravates banking competition, but it keeps a host of unworthy or incapable traders on their feet long after they ought to have been turned down.

I repeat, therefore, as my own empirical and independent opinion, that the probability of strong banks advancing funds to tide such banks over failure, is extremely dubious. As to what steps they may take, one possibility can be inferred from the action of the other banks in giving help that the Federal Bank might be wound up with open doors. Another course would be to let the involved bank go down in unqualified failure, as the Commercial Bank of Manitoba was allowed to go. When the condition of a badly managed or unprosperous bank is tolerably understood by the public, this course is the most convenient ; the public forewarned, are forearmed, and no panic whatever follows the failure. A third course would affect only the bank in trouble and some one of the others. The trouble might be so far anticipated that shareholders could agree to reduce the nominal value of their stock, and ratify proposals for amalgamation with another bank. By any course of the three, the number of banks would be reduced.

§ 60.—BANK INSPECTION AND THE DEPOSITOR

I. According to the opinion of Canadian legislators, as implied in the Bank Act, the *depositor* with a chartered bank is a person capable of looking out for himself. There is no requirement of a fixed reserve for his protection, no Government inspection. The reasons for the latter omission, if such one chooses to call it, have already been detailed. They may be summarized here as (*a*) the impracticability of efficient Government inspection where banks are as complex and their business as widespread as under the Canadian system, and (*b*) the provision for inspection already adopted by the banks themselves.

Inspection is an integral part of a Canadian bank's administrative routine, the need for which has been proved in a negative way by the experience of banks who have neglected it. Looked at from another side, it is essential to sound management upon a full knowledge of a bank's liabilities, assets and circumstances. A bank with a number of branches usually employs at least one officer exclusively for the service of inspection. In the larger banks he ranks third in the hierarchy, coming next to the assistant general manager or assistant cashier, reports to the general manager or cashier, and is under his direction. It is the duty of the inspector, with his assistants (who in some banks may be three or four in number), to make the round of the branches each year, or oftener, if possible, to pass upon the value and character of the commercial paper and other negotiable securities composing the banking assets of the offices, to check over the books and otherwise to verify accounts, to inquire into the general working, prospects and business of the several branches, and to furnish detailed statements of his findings, criticisms and recommendations to the general manager.

The general manager has his own opinion, he has information as complete as they can make it from branch managers ; he needs the result of the inspector's observations as to the value and character of his bank's assets, and it is given him with fulness, courage and independence. By comparing the three views, the general manager has a proper basis for deciding the policy he will pursue, the provision for bad debts he will recommend, and the curtailment or extension of the operations of the respective branches. The inspector, as his rank indicates, must be a banker of the first class. In order to the just appraisal of the bank's loans, his experience must be wide and his judgment trustworthy. When the inspection staff is large, the work of the chief inspector and his assistant is confined to this problem, and the equally difficult task of reporting on the general policy, prospects and position of the branches. Counting cash and checking books is left to the routine inspector and the inspection clerks.

There is an obvious propriety in the inspector's reporting to the chief administrative officer of the bank, rather than to the president or board of directors. Should he report to them, the strained relations likely to arise between manager and board or manager and inspector, would be intolerable. Then, too, the data obtained by inspection are essential to the management of the bank rather than to the supervision exercised by the advisory committee of shareholders. Cases of collusion between a general manager and inspector are rare. The latter is always a banker who has his own ends, reputation and future. He would not gain by stultifying himself. If the bank should fail, the facts would be certain to leak out. His name would be tarnished; his career ruined. Besides, the public are critical. They have seen and learned that in the long run a bank which fails, fails because of bad debts. They have also come to believe that efficient inspection is the only possible means for a bank promptly to acquire knowledge of its bad debts and provide for them in time. The public will gossip of a bank as of a woman. If its inspector is a weak man, of slight ability or bad character, unscrupulous, a mere clerk, connected by family ties with the general manager, or otherwise likely to be too close to him, the public will say " there's no inspection whatever of that bank," and act accordingly.

So the depositor, if he chooses to seek it, can still have the security of inspection, not, to be sure, carried on for his special protection, but of an inspection more expensive, thorough and capable than the work of Government officials well could be. He enjoys, it is true, no preferred claim upon the assets of an insolvent debtor, even though his deposit bear no interest. Indeed, three classes of creditors—note holders, the Dominion Government and the Provincial Governments—must be paid in full before he gets a cent. The real security of the depositor is found in the large capitals and reserve funds of the banks, their prudent, careful management, the double liability of shareholders and the personal joint and unlimited liability of directors guilty of violating provisions of the Bank Act. It has been argued that, taking the system as a whole, shareholders must lose $63,000,000 of subscribed capital, $63,000,000 more of double liability and $27.000,000 of rest, $193,000,000 in all, before depositors can lose on their claims for $174,000,000.[1] The security afforded depositors by individual banks is more or less than the average indicated by these figures; but it is high in every case. The experience of twenty-seven years with failed banks shows that where depositors and all other creditors have lost one dollar, shareholders have lost twelve.

To guide his choice of a bank, the depositor has the information obtainable from the monthly bank statement, the common reputation of the different corporations, the general opinion passed upon their officers and the criticisms of newspapers and financial journals. If through ignorance or excessive timidity, he is inclined to distrust his judgment, the Government is always ready to borrow his money through the Post Office or Government savings banks, and to pay at least the current rate of interest on time deposits. Well-informed persons, however, especially those to whom time and the constant availability of their funds are considerations, object to the inconvenient restrictions and red tape apparently necessary to deposits in and withdrawals from the Government banks, and prefer to leave their money with the chartered banks.[2]

If the depositor will agree to leave his money with the bank for a specified time, or not to withdraw it without giving notice, usually of ten to fifteen days, the chartered bank will pay him an interest, the current rate now being 3 to 3½ per cent. The higher current rate is paid when the period is one of three to six months, or when thirty or sixty days' notice of withdrawal is agreed upon.

Deposits of this class figure in the return as "deposits made by the public, payable after notice or on a fixed day." Their large amount, $109,924,925 on the 30th June, 1894, well indicates the efficiency of the Canadian system in gathering up the spare cash of the people and in quickening the flow of capital disbursed among laborers, farmers, artisans and others, back to the channels of commerce. It must be remembered that the sum is almost entirely of Canadian contribution. The discount rate has long been so low in Canada as to preclude the profitable employment of British funds bearing the interest which other colonial banks are able to offer. Canadian banks, therefore, have not developed a British business; their foreign liabilities chiefly arise from transactions in exchange. Interest bearing deposits are regarded by the Canadian depositors in the light of investments; by the banks, as among the most satisfactory and least troublesome of their liabilities. They are evidenced either by deposit receipts, or, when made through "Savings Bank Departments," by entries in the pass-book of the creditor. As in other countries, the notice of withdrawals required from depositors of the latter sort is designed to protect the bank at critical times; ordinarily the money is paid over as soon as the depositor signifies his wish for it. The more permanent character of such deposits lies in the intentions of the makers rather than in the practical conditions of their withdrawal.

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[1] B. E. Walker, "Canadian Banking," *Journal of the Canadian Bankers' Association*, Vol. I., p. 20.

[2] Still, the balances due by all the Government banks have risen, almost steadily, from $5,230,733 on the 30th June, 1872, to $43,036,630 on the 30th June, 1894. (Public Accounts, Canada, 1893, p. 76, and *Canada Gazette*, Vol. XXVIII., pp. 302, 303.) Twenty-five millions ($25,257,868) of this was owed by the Post Office banks and $15,803,209 by the Government Savings banks, the latter being mostly in the Maritime Provinces. The funds thus obtained are not immediately invested in securities as they are in Great Britain. The Government acts more as a borrower than as a trustee. Deposits made with its banks pass into the Consolidated Revenue Fund, and interest and withdrawals are a charge upon the revenue. Both items appear in the Budget.

The person who wishes to retain complete control over his moneys, deposits them on demand. Competition formerly led the banks to pay interest on the balances of active current accounts. Now, however, the custom is nearly obsolete among well managed banks. In rare cases, when the balance of the depositor is large, has a permanent character, or promotes, as an account, important incidental advantages, the bank may still allow an interest. Aside from the convenience of making payments through the bank and the security of funds left with it, the depositor on demand generally expects to derive certain other benefits from the bank in his relation to it as a borrower. He cannot, therefore, exact so much as the customer who merely expects the bank to hold his savings safe, and to whom interest is paid, partly as a just compensation for the use of his money, partly as a means to the important economic end of utilizing all the available capital of the community in the operations of trade and industry.

§ 61.—THE SHAREHOLDER AND BORROWER OF THE CANADIAN BANK

I. As guarantors of its liabilities, the shareholders of a bank are liable not only for the amount of their subscriptions to stock, but also for an equal amount in addition. The very fact that close to five-sevenths of the total resources of Canadian banks are derived from sources other than their proprietors, makes patent the necessity for some such guarantee. Various precautions are established by the Bank Act in order that the liability of shareholders shall be real and available. A new bank may not start without giving substantial evidence of a capital foundation contributed *bonâ fide.* Subscribers refusing or neglecting to pay calls made by directors, forfeit ten per cent. of their shares; they may not vote at meetings while calls, then due by them, are still unpaid; calls may be enforced by suit; or sufficient of the holders' stock may be sold to provide the amount necessary, after deduction of expenses and penalties, to pay up their remaining shares. The provisions for promptly enforcing the double liability include, among others, entire forfeiture of claims to dividends on refusal to pay calls, the recovery of calls by suit, and the continued liability of the transferor on shares the transfer of which shall have been registered within sixty days of the bank's suspension of payment. A further safeguard, effective chiefly as an exhibit of the character of each bank's proprietary and the changes occurring therein, is the requirement of an annual return to the Government of the names of the shareholders of each bank, their places of residence and the amount of stock held by each.

Other clauses of the Act, dealing with the transmission of shares, declare no transfer valid unless registered, and accepted by the person to whom it is made, nor unless the person making the transfer, if so required by the bank, has discharged his debts to the bank exceeding the value, at the current rate, of the remaining stock belonging to him. The bank has a prior lien on shares of persons indebted to it, a security on which it must realize by selling the stock within twelve months after the debt becomes due and default occurs in payment. Partly, it is supposed, to prevent speculation in shares, no contract to transfer shares is valid unless the person making the transfer is the registered owner of the shares, or has the owner's consent to the sale and specifies the distinguishing numbers,[1] if any, of the shares transferred. * * * Under these and a number of other restrictions for the most part only of technical legal interest, his position as a guarantor and the liabilities of the shareholder are fixed and certain; if he have visible wealth other than his stock, they are practically inevitable.

As a proprietor, or rather as an investor, his position is not always so certain. Buying or subscribing to bank stock is a business venture, subject to the business risk. The profit from the investment depends, more or less, upon the sagacity and prudence with which the risk is placed. Passages in the historical chapters of this investigation have shown how, in former years, shareholders have borne well nigh the whole burden of loss caused by careless, unsound, dishonest or imprudent banking, a loss that can be estimated at nothing less than $23,000,000 in twenty-seven years. What has happened will happen hereafter. The first purpose of successive improvements in Bank Acts must be to minimize injury to bank creditors, rather than to bank proprietors. Still, Canadians frequently remark that faults in banking management are fewer now than they were in earlier years, or that the business is conducted on safer lines than ever before, and they believe that the future will bring further improvement. Evils have never been more than sporadic. A number of banks have enjoyed a steady growth from the time they were started; in bad times they have, perhaps, slightly reduced their dividends, but they have always been able to provide for losses from the balance at credit of profit and loss. A number of others, not quite so fortunate, while obliged to trench upon reserve funds, have never had their capital stock reduced and have never passed their dividends.

If his choice is judicious, the bank investor can find plenty of stocks on which the payment of the semi-annual dividend is as nearly sure as commercial ventures well can be, and from which he is likely to gain in the added value, "the unearned increment" usually accruing to the stock of a well-managed bank, as it grows older and shares in the advancing prosperity of its customers. In 1893-1894, six of the banks have paid dividends of 6 per cent., seven of 7 per cent., two of 7½ per cent., nine of 8 per cent., two of 10 per cent. and two of 12 per cent. The dividends paid by the principal banks in the last four years appear in Appendix II.

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[1] It is not the custom of Canadian banks to number their shares.

Partly to protect the shareholders from fluctuations in the rate of dividends, it is provided by the Bank Act that no division of profits exceeding eight per cent. per annum of the capital stock shall be declared until the rest or reserve fund (" surplus" in the United States) shall equal thirty per cent. of the paid-up capital of the bank. By avoiding changes in the dividend rate, this accumulation of earned profits left with the bank also tends to minimize the fluctuation in the value of shares that stimulates speculation. Canadian bankers think it desirable to have their stock held by investors *bonâ fide*, and for years some of them have congratulated their shareholders upon the diminution of speculative holdings.[1] It is hardly necessary to add that the rest furnishes an additional guarantee to the creditors of a bank ; while undivided, it is strictly corporate property ; its existence nowise diminishes the liability of stockholders, although it does furnish them with a substantial protection against the possibility of being called on for further contributions.

As a matter of fact, rests are much larger in many instances than the proportion mentioned in the Bank Act. Any addition to the fund is ordinarily reflected in the price of the stock, for the rest increases the earning power of the bank which holds it. It costs neither dividends nor interest, and most managers and proprietors believe that higher returns are obtained from profits thus undistributed than could be secured by proprietors if the fund were divided among them. The Bank of New Brunswick, therefore, has accumulated a rest of 105 per cent. and pays a 12 per cent. dividend ; the Dominion Bank has one of 100 per cent. of its capital and pays 12 per cent.; the Bank of Nova Scotia, one of 80 per cent. and pays 8 per cent. ; the

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[1] In the small number of transactions in shares indicated by the market reports, it is possible to see how completely, at the present day, bank stock has passed into the hands of permanent holders. There is no better or stronger evidence of the confidence placed by the public in the solidity of the banks than its appreciation of bank shares as investments.

Bank of Toronto, one of 90 per cent., and pays 10 per cent. The Imperial Bank, the Bank of Hamilton, Standard Bank, Bank of Ottawa, Bank of Montreal, Banque du Peuple, Molsons' Bank, Merchants' Bank of Halifax, Merchants' Bank of Canada, Halifax Banking Company and the People's Bank have each a rest equal to 50 per cent. or more of their paid-up stocks.

Too seriously to emphasize the liabilities of shareholders in the Canadian banks will be to make a grave mistake. Investors, no doubt, take a certain account of the liability, but in respect to eleven-twelfths, at least, of the subscribed banking capital of the Dominion, the probability of occasion arising for its enforcement is so remote, so slight, that the liability is practically disregarded. The stock in well managed banks is esteemed one of the safest and best commercial investments in Canada. Stocks yield to the buyer from 4 to 6 per cent. on the market value of his purchase. It may be worth while to note that the lowest yield is usually obtained from stocks commanding the highest premium. The accumulation of a rest makes property in a bank somewhat more secure, and the firm establishment of banks which have been able to acquire large rests rather improves the prospects of regular and uniform or gradually rising dividends. Other factors in the market estimate of a stock, are that growth of a bank's good-will, the increase of its credit and the formation of a *clientele*—for all of which time and good management are necessary.

These considerations make shares in particular banks especially desirable investments, and help to raise their price, even considerably above the point at which the rest would be fully provided for in the value of the stock, or at which the yield to the investor would be as high as from the stock of banks less favorably situated. Shareholders exclusively get the benefit of any such increment of value accruing during the period of their proprietary. To realize it, either they may sell their holdings, or in case it is decided to increase the capital of the bank, they may sell the new shares allotted to them. It is provided by the Bank Act that bank directors shall not require from holders to whom allotments are made, a rate of premium on new shares exceeding the percentage then borne by the rest of the bank to its capital stock. The holder gains the difference between this price and the higher market price.

II. The position of the *borrower* has received some attention in the discussion of large banks, branch banking, and the Canadian system of issue. I have pointed out there the wide and thorough distribution of banking facilities, the equalization of discount rates, the avoidance of periodical fluctuations in the cost of loans, and the extensive control of funds exercised by the Canadian banks wherever their establishments are in operation. A consequence of this control, which has also been previously noted, is the ability of each bank to supply whatever may be judged the needs of its own customers, and to enforce the rule of "one customer, one bank."

The natural, desirable and usual corollary to this rule is the establishment of confidential relations by the borrower with his banker, as a condition precedent to any advance. The borrower lays before the banker the state of his business, usually by means of an actual balance sheet; he explains to the banker the purpose for which the advance is required, and gives such general information as to his prospects, condition and business as can assist the lender in judging as to the expediency of granting the amount asked for, the sincerity of the borrower's explanations, and the probable productivity of the advance. As a rule, the discussion of the balance sheet is required each year, and the banker sets a limit or "grants a line of credit" up to which he agrees to supply the borrower as needs arise in the course of his season's operations. The general possibilities of the mentorship, the restraint on speculation and the check on over-expansion which can be exercised by cautious, far-seeing and sagacious men as bank managers under such conditions, have been reasoned out to the conclusion that the country in which they are thoroughly realized will enjoy practical immunity from commercial crises.[1] The experience of Scotland for a long period of years, and of Canada since 1879, would seem to confirm the writer's views. At any rate bankers do not so often discover that they "have unwittingly been booming a corner lot, building a mill or helping to float a company."[1]

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[1] *Cf.* Somers, The Scotch Banks and System of Issue, pp. 113-114, on Scotland's escape from crises.

As the Canadian corporations are predominantly commercial and industrial banks, we may disregard, for the present, loans made on the security of bonds and stocks, temporary and unsecured advances to persons of great wealth and high credit, and occasional supplies to shareholders merely, *e.g.*, on unindorsed promissory notes.

Borrowers in general, whose purposes are approved by the banks, seek advances to anticipate returns from sales of commodities already concluded, to make, to move or to carry commodities for the purpose of selling them. In other words, banks as a rule will extend credit only when there is a prospect that the use of the advance will provide the means for its payment. Otherwise they incur losses and lock-ups. It is, further, a well established principle of Canadian practice that advances shall be secured.

Those who borrow to anticipate returns from concluded sales are technically the discount customers of the banks. The security they give is the two-name paper purchased by the bank, *i.e.*, promissory notes indorsed by the payee, time acceptances of debtors for which the drawee is still liable, or indorsed bills of exchange. The bank thus has two guarantors of repayment, the one directly liable, the other by way of recourse, and both commercial houses who must meet such obligations in order to preserve their solvency. Another class of discount customers are farmers, who usually borrow on their promissory notes, indorsed by one or more of their neighbors.

Persons making commodities for sale are usually expected to secure the banks which assist them in the method provided by those clauses of the Bank Act of 1890 which relate to the security given by wholesale manufacturers, millers, distillers, packers, etc. (*Vide* § 52.) The security given by those engaged in shipping goods to market or holding them for the purpose of sale, is likewise, in many cases, the material security of valuable goods, and the rules for its assignment are provided by the

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[1] B. E. Walker, "Canadian Banking," *Journal of the Canadian Bankers' Association*, Vol. I., p. 22.

Bank Act in the clauses dealing with warehouse receipts, bills of lading, specifications of timber and the like. Under the same category (of persons carrying goods with intent to sell them), come many wholesale houses, importers, exporters, dealers in general merchandise and a large variety of retail traders. It is usually necessary to give the bank collateral security, if it exists, but where no collateral is at hand, the borrower, according to the best practice, is required to furnish the bond of other responsible parties, to secure the repayment of his banker. In their essence, all the transactions mentioned in the paragraph are loans, but in form they frequently appear as discounts. Canadian bankers prefer to make advances on negotiable instruments, rather than overdrafts, even though the promissory note taken from the customer for loans is nothing more than an evidence of the bank's claims.

The rule as to renewals no longer shows the same simplicity as when Upper Canada was a separately governed province. Whether a renewal is permitted now depends upon the purpose for which the advance was made and the pertinent circumstances. Produce buyers and grain shippers or others for whom the season of operations and sales is brief, would hardly be allowed renewals.

Customers obtaining the discount of paper payable at places other than the place of discount, are subject to an additional charge for the expenses of agency and collection not exceeding one-half of one per cent., when the paper is payable at the office of a bank other than the one discounting. When the paper is payable at another office of the same bank, the charge permitted by the Bank Act, which may not exceed one-half of one per cent. for paper payable in ninety days or over, is proportionally less for shorter term advances. These provisions, intended to assure to banks in certain cases somewhat more than the interest at seven per cent. per annum they are permitted to deduct at the time of discounting or recover by suit, are not of particular importance under the ruling conditions. The rate of discount on first-class commercial paper does not usually exceed 6½ per cent. in any part of Canada except British Columbia.

The borrower whose account is "valuable" is likely to secure favorable rates on the additional charges for agency. If, for example, he usually keeps a large balance at his credit, if he receives or uses a large amount of exchange in his business and sells or obtains it through his bank, or if, again, he uses quantities of bank notes in his disbursements, the bank which has the account can afford to perform services for him at lower rates than for those whose custom opens no such incidental sources of profit. He is likely to be accorded somewhat greater facilities in the matter of loans. What extra gain the banks obtain in one way, competition generally compels them to return in another.

A question as to the borrower's position which we have yet to examine, is the treatment he receives from his bank when the money market tightens, the financial horizon becomes obscured and every one begins to prepare for trouble. Is the borrower allowed to carry through the undertakings begun on an understanding as to loans? Or is he sacrificed to the exigencies of the time and forced to realize at a loss, in order to pay a debt? What is the meaning of the banker's proposal "to take care of his customers?" For an answer, we need only to recall the spring and summer of 1893.

In the first half of that year many an agent of first rate American houses, provided with unexceptionable securities, offering paper at all the way from 8 to 14 per cent., and promising permanent custom if immediate needs were supplied, was sent away begging from one Canadian bank to another. But even then Canadian customers of these banks got advances, if they needed them for legitimate purposes, up to the full amounts of their credits, and at rates no higher than seven per cent. The banks had to import more than $8,000,000 to do it, they had to reduce their American balances at a time when the reduction was most difficult and unprofitable, they lost safe chances for high though temporary profit, but they were under obligation to support their customers and they did support them. Current loans were increased by over eleven millions between the last day of January and the first of July, although between the last of January and the last of August, barely half a million was added to circulation, and deposits on demand were reduced by more than six millions. In the table below appear the changes occurring in the significant items of the bank statement, month by month, from January to December.[1] Nothing could better illustrate the protection enjoyed by the worthy customer under the Canadian system of banking. In critical periods, his accommodation is not ruthlessly curtailed, nor the price of it excessively augmented.

§ 62.—THE BUSINESS OF CANADIAN BANKS

In reviewing the important or interesting facts relating to note holders, depositors and borrowers under the banking system of Canada, in discussing reserves, inspection and other points, many of the salient features of the miscellaneous banking business carried on with the Canadian public have already been more or less fully explained. A second explanation in this connection would be repetition from a different point of view, rather than the formulation of new material. The proportions of various items in their assets and liabilities to their capital stocks, and sundry other facts respecting the several banks, appear in Appendix II.

Aside, however, from those commonly denoted by discount, deposit and issue, the business of the Canadian banks includes other types of transactions. The Canadian chartered banks perform nearly every variety of the mercantile banking services

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(000 omitted)	Circulation	Demand Deposits	Deposits at notice or on fixed day	Balances due to Foreign Agencies	Balances due to Agencies in United Kingdom	Specie and Dom. Notes	Balances due from Foreign Agencies	Balances due from Agencies in United Kingdom	Securities	Call Loans	Current Loans
	$	$	$	$	$	$	$	$	$	$	$
Jan	32,831	67,459	102,097	81	4,100	19,695	21,626	1,432	14,606	18,833	197,256
Feb.	32,978	66,822	103,140	87	4,766	19,791	21,397	1,159	14,264	19,456	197,709
Mar.	33,340	64,536	103,700	127	6,412	17,857	20,539	375	14,395	17,655	204,903
Apr.	32,633	64,542	104,216	139	6,101	19,378	17,165	2,324	14,306	16,469	206,789
May	31,927	64,859	105,581	163	5,504	19,230	17,814	1,182	14,787	15,213	207,685
June	33,483	64,975	105,841	210	4,751	18,547	17,331	1,587	14,786	14,880	208,793
July	33,573	64,563	106,563	124	4,600	19,205	15,616	3,860	15,080	15 141	206,937
Aug.	33,308	61,437	105,015	169	5,538	20,456	13,562	3,364	15,377	14,398	205,956
Sept.	35,128	61,245	104,004	221	5,312	20,214	13,451	4,243	15,562	14,960	204,654
Oct.	36,906	62,524	103,577	179	4,966	20,588	14,839	3,918	15,446	14,681	204,854
Nov.	35,120	62,926	104,414	131	4,419	20,630	16,242	4,827	16,439	14,465	201,996
Dec.	34,418	62,594	107,785	166	4,151	20,978	18,229	3,540	16,573	14,236	200,397

required wherever there is sufficient business to support an agency or branch. Quite all the trade they do not enjoy. In collecting deposits, *e.g.*, they have as competitors both the Government savings banks and the loan, mortgage and investment companies, as well as some building societies—the latter being corporations that loan money on real estate—most of whom receive deposits at interest. There are also a number of private bankers who receive deposits, conduct a loaning business in places where no chartered bank is established, and frequently place money elsewhere, in such amounts or on such security as would make the transaction unacceptable to a chartered bank.

But of incorporated savings banks, such as one finds in almost any American city of twenty thousand inhabitants, there are not more than five in the whole country. With two exceptions these are in the cities of Montreal and Toronto. "The Savings Bank Department" usually attached to the branch offices of chartered banks forms a place of safety for the spare earnings of the people, and is now opened in many a locality where a mere savings bank could not eke out existence. The practice of banks in computing interest upon deposits varies in different parts of the Dominion; in some districts interest is paid from the day of deposit to the day of withdrawal; in others, it is computed on the minimum monthly balance, though when this is the case, the rate allowed is often somewhat higher than when interest is paid on the daily balance. What proportion the mass of small accumulations thus acquired and eventually devoted to productive purposes, bears to the total deposits at interest with the chartered banks, there are no official statistics to indicate.

In addition to Canadian collections and transactions in domestic exchange, many of the banks undertake the negotiation of municipal debentures, city bonds, and occasionally provincial securities. They do not act as brokers, but buy the securities outright, after the manner of specialized bond dealers in the United States. Some banks issue commercial credits available in whatever parts of the world the importers and traders among their customers are likely to require funds. They also issue travellers' credits and circular notes, these also being available in any part of the world with which a banking correspondence can be established. Not all the Canadian banks engage in this class of business ; not all the banks are examples of what may be termed the Canadian type. There are still some banks, ten in all, perhaps, whose interests are at most but sectional, and whose business is chiefly confined to discount, deposit, issue, and such transactions in domestic exchange as may be required within the sections where the banks work. The typical Canadian bank, however, is a corporation controlled from one of the centres, and capitalized for a million or more, which has its branches at a number of points in one or more provinces, its correspondents in London, England, in numerous cities of the United States, and at different European and Oriental marts, and consequently the facilities for practically any kind of safe transaction that may be offered it.

Four of the banks have agencies of their own in the city of New York, one a branch at Chicago, another an agency there as well as at Kingston, Jamaica, and another still, branches in San Francisco, Portland, Tacoma and Seattle.[1] With the exception of the agencies in New York, the American agents are engaged in a miscellaneous banking business, the amount of which cannot be inferred from the bank statement, because the parent banks are required to report merely the *balances* due by agents, agencies or other banks in foreign countries.

New York city is used by all the larger Canadian banks as a place to keep parts of their reserves. When the bank has no agency of its own there, it can arrange with some local bank to loan its moneys at call, or it can get a certain interest by depositing a balance with one of the local banks. The balance may then be used as a basis for drawing New York exchange, or as a means of purchasing needed sterling exchange when the New York market is more favorable than the Canadian, or as a means to purchase specie when it is necessary to import gold to Canada. Banks which had their own establishments at New York in 1873, used their agents for the employment of portions of their funds until required elsewhere. An agent employed money forming part of the general fund reserved by his bank to meet shortly maturing or unexpected liabilities, partly on loans maturing on demand, for which no vouchers were received (call loans on bonds and stocks), and partly in loans payable at specified times, for which he received notes, drafts and other commercial paper.[1] Even then the Bank of British North America and the Bank of Montreal had long been two of the "five great names" of the sterling exchange market.

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[1] The Bank of British Columbia, controlled, like the Bank of British North America by a Court of Directors sitting in London. Both are institutions acting under Royal Charter, but subject to the regulation of the Canadian Parliament. The latter bank also has an agency at San Francisco.

At present the New York offices very seldom loan on time, though when good rates are offered and no funds are required, either in Canada or abroad, they are willing to make an occasional time loan. But their principal business is loaning at call on negotiable securities to stock brokers and others, the purchase and sale of sterling exchange, and making transfers of money by cable. Their British correspondents, in two cases, may be their own London offices, but both for these and the other banks are usually such institutions as the Clydesdale Bank, Limited, the Bank of Scotland, the London and Westminster Bank, the Union Bank of London, the banking house of Messrs. Glyn & Co., or the British Linen Company Bank. Correspondents elsewhere are of equal standing, so that wherever it is payable, the bill drawn by a Canadian bank is of the highest class. The New York agencies do not receive deposits or discount notes. They have no considerable liabilities and practically the whole amount of their funds is always available.

What use is occasionally made of this reserve may be illustrated by the action of the banks during the Canadian stringency of early 1875, and still more graphically by the net decrease of the "foreign balances" (which really mean, for the most part, American balances), by over eight million dollars between the last of January and the last of August, 1893. Yet the advantage of their establishments in the United States is not by any means confined to the Canadian banks. In New York, the sellers of cotton bills, with whom their transactions are enormous, doubtless feel that the benefit is mutual. So, too, the great grain merchants in the export trade. Many a dealer in stocks has had occasion to thank these foreign corporations at times when, just as many banks were calling in their loans, and it seemed that borrowing from others would soon be ruinous or impossible, the agents of Canadian banks have come into the Stock Exchange with offers to advance freely as long as the security was good. Farther west, large sums of surplus Canadian money are employed in the grain markets of Minneapolis, Duluth and Chicago. On the Pacific slope, where the Bank of British Columbia is established, it ranks as one of the most important corporations of the kind. In San Francisco the other British bank has an office in which is carried on a heavy business in exchange and such other transactions as circumstances permit.

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[1] New York Supreme Court Reports (T. & C.), p. 630.

New York, of course, is not the only scene of the transactions of the Canadian banks in sterling exchange. Nearly every one of the chartered companies has its London correspondent, and deals in sterling bills. The rate of interest in comparatively quiet periods is so low in London that it is more profitable for a bank to hypothecate a part of its securities, bearing interest say at 4 per cent., than to keep a cash balance loaned out at call there. Consequently the Canadian banks are usually somewhat in debt to their London correspondents. By reason of the branch system and the presence of a number of banks well equipped for such transactions, there is plenty of competition in the Canadian exchange market, and a buyer or seller is always near at hand. The Government takes advantage of this when negotiating London bills by inviting tenders from all the banks.

What particular gain there may be in making foreign payments or collections through the agencies employed in the manifold exchanges of domestic trade, I do not purpose to examine. The convenience, doubtless, is greater. The banks of New York City and the National banks generally—with marked exceptions in Chicago and California—have left the business in foreign exchange and a number of other banking operations, to houses specializing in those lines, chiefly private or foreign bankers. National bankers lack both the facilities and training for such business. Particularly for dealing in exchange, the operator needs habits of close observation, acute reasoning faculties, prudence, caution, decision, a varied experience and thorough technical training. The Canadian chartered banks can successfully undertake the business, for it is exactly these qualities in its servants that the Canadian banking system is admirably calculated to develop.

Further details belong to the technique of banking practice or to the minutiæ of banking law. How far the principles on which the Canadian banks are organized, by which they are regulated and according to which they are managed, are of general application, is a question to be decided as the banking system conforms to the general economic tests. How the Canadian banks economize capital; how they utilize and distribute it; what is the security, convertibility and elasticity of the circulating medium they supply; how thoroughly are their creditors protected against loss; how low and how nearly equal are the rates of interest in different parts of the country; how cheaply are other banking services sold; how easy of access are banking facilities; what support have worthy customers in critical times, and how far does the system promote the stability of commercial confidence: these are questions to which, perhaps, this chapter forms an answer. According to the true response, the merits of the Canadian Banking System must be judged. If the present answer be sufficient, the reader may draw his own conclusions.

APPENDIX I

TABLE SHOWING THE GRAND TOTALS OF THE LIABILITIES AND ASSETS OF THE CHARTERED BANKS

Of the Dominion of Canada as reported to the Government on the 30th June, 1867; the 31st December, 1868-1893; and the 30th June, 1894.

APPENDIX I

TABLE showing the Grand Totals of the Liabilities and Assets of the Chartered Banks of the Dominion of Canada, as reported to the Government on the 30th June, 1867, the 31st December, 1868-1893, and the 30th June, 1894*

LIABILITIES

Number of Banks reporting to the Gov'ment †		Capital Authorized by Act	Capital Paid-up	Promissory Notes in Circulation not bearing interest	Cash Deposits not bearing interest	Cash Deposits bearing interest	Balances due to other Banks	Total Liabilities
28	1867	....	$32,500,162	$10,102,439	$14,935,213	$16,727,378	$2,984,344	$44,548,376
...	1868	$41,066,666	30,451,519	10,157,483	16,888,417	22,640,394	1,322,379	51,008,675
...	1869	42,166,666	33,794,989	11,421,641	18,802,310	28,773,736	1,407,206	61,482,490
...	1870	40,566,666	33,449,963	18,526,212	19,159,645	32,897,546	1,910,645	72,494,049

Number of Banks reporting to the Gov'ment †		Capital Authorized by Act	Capital Subscribed	Capital Paid-up	Notes in Circulation	Government Deposits payable on demand	Government Deposits payable after notice	Other Deposits payable on demand	Other Deposits payable after notice	Due to other Banks in Canada	Due to other Banks or Agencies not in Canada	Liabilities not included under the foregoing heads	Total Liabilities
...	1871	$52,113,998	$42,157,656	$41,668,729	$24,480,627	$3,177,039	$6,084,865	$29,194,107	$21,080,063	$1,157,092	$ 997,941	$300,240	$86,484,726
...	1872	65,666,999	57,881,216	50,954,099	27,930,172	4,129,606	3,768,599	30,479,309	23,377,579	1,094,102	2,102,887	322,561	93,350,100

Number of Banks reporting to the Gov'ment †		Capital Authorized by Act	Capital Subscribed	Capital Paid-up	Notes in Circulation	Dominion Government Deposits payable on demand	Dominion Government Deposits payable after notice or on a fixed day	Provincial Government Deposits payable on demand	Provincial Government Deposits payable after notice or on a fixed day	Other Deposits payable on demand	Other Deposits payable after notice or on a fixed day	Due to other Banks in Canada	Balances due to Agencies of the Bank or to other Banks or Agencies in foreign countries	Balances due to Agencies of the Bank or to other Banks or Agencies in the United Kingdom	Liabilities not included under the foregoing heads	Total Liabilities
...	1873	$68,766,666	$63,782,916	$57,931,359	$29,016,659	$4,469,800	$2,424,850	$ 801,179	$2,321,729	$30,952,012	$26,954,561	$1,549,207	$ 820,656	$4,781,957	$519,299	$104,526,166
...	1874	73,566,666	69,376,976	63,212,027	28,465,192	5,875,707	5,709,172	1,671,609	3,254,762	35,624,746	33,483,718	2,059,647	833,871	9,235,920	443,240	126,090,487
39	1875	77,266,666	71,999,321	66,800,225	23,257,721	3,580,159	2,309,109	1,629,062	2,932,747	34,020,524	26,084,999	2,017,040	193,223	1,896,921	230,239	97,363,173
39	1876	71,966,666	70,129,766	66,137,315	23,275,701	2,918,509	3,240 307	1,246,511	3,236,912	35,071,764	28,576,990	1,586,836	1,033,016	1,730,332	272,341	101,192,533
39	1877	74,266,666	69,127,566	63,756,861	21,794,212	5,121,890	1,221,700	730,290	505,954	35,408,612	28,360,041	2,152,402	180,362	1,206,406	294,154	96,976,027
39	1878	72,766,666	67,426,557	64,257,010	21,455,641	4,437,841	425,314	473,798	296,348	35,120,759	31,285,757	1,828,410	289,123	1,317,139	402,409	97,332,543
36	1879	67,266,666	63,106,633	60,351,505	22,252,761	3,700,777	6,607,047	482,307	116,374	37,889,165	30,597,257	3,093,306	75,984	587,194	400,645	105,802 821

Number of Banks reporting to the Gov'ment †		Capital Authorized by Act	Capital Subscribed	Capital Paid-up	Reserve Fund	Notes in Circulation	Dominion Government Deposits payable on demand	Dominion Government Deposits payable after notice or on a fixed day	Dep's held as sec'y for ex'n of Dom'n Gov't contracts and for insurance companies	Provincial Government Deposits payable on demand	Provincial Government Deposits payable after notice or on a fixed day	Other Deposits payable on demand	Other Deposits payable after notice or on a fixed day	Loans from or Deposits made by other B'nks in Canada, secured	Loans from or Deposits made by other B'nks in Canada, unsecured	Due to other Banks in Canada	Balances due to Agencies of the Bank or to other Banks or Agencies in foreign countries	Balances due to Agencies of the Bank or to other Banks or Agencies in the United Kingdom	Liabilities not included under the foregoing heads	Total Liabilities
36	1880	$66,766,666	$62,359,533	$59,819,603	....	$27,328,358	$5,807,010	$2,025,252	$ 992,726	$1,729,033	$ 596,107	$42,179,627	$37,059,788	....	$1,848,184	$1 180,508	$168,651	$ 295,940	$260,534	$121,471,722
36	1881	66,266,666	62,176,933	59,677,363	....	32,358,844	6,591,901	4,968,516	828,186	1,364,817	711.157	45,958,529	43,637,079	....	1,776,977	1,071,797	171,521	585,702	321,278	140,346,311
36	1882	68,146,666	63,822,183	61,039,657	....	36,501,694	3,393,963	5,074,264	1,141,053	773,737	1,418,307	47,457,360	49,422,184	....	1,092,865	1,577,020	211,375	1,349,442	336,265	149,749,536
36	1883	69,396,666	63,555,133	61,451,733	$17,457,718	33,589,454	3,729,445	3,302,965	988,067	741,733	2,434,596	44,594,648	52,015,098	14,000	1,183,288	1,254,325	155,141	1,430,171	378,906	145,812,744
38	1884	71,896,666	64,685,933	61,605,520	18,339,129	31,935,933	4,625,625	130,000	575,113	700,099	1,893,511	42,904,831	49,405,039	310,295	1,113,220	1 074,531	60,104	339,653	306,977	135,374,937
41	1885	74,179,999	65,720,299	61,763,279	17,803,766	32,363,992	6,076,031	100,000	736,534	1,015,124	1,475,129	52,119,199	49,748,931	. .. .	1,246,377	1,645,316	112,512	472,895	328,207	147,440,252
41	1886	79,579,666	64,276,699	61,230,370	17,930,141	34,578,347	5,445,998	100,000	539 019	765,481	508,929	50,750,882	54,020,047	....	1,559,473	845,195	124,409	916,040	364,628	150,518,455
38	1887	76,079,999	62,944,399	60,352,092	17,793,814	34,354,595	5,240,386	100,000	451,176	793,347	1,169,213	48,981,273	56,618,392	.. ..	2,180,130	890,960	89,433	1,927,013	422,679	153,218,603
38	1888	75,779,999	62,254,599	60,233,459	19,050,565	34,785,486	6,755,245	5,008,324	337,833	667,558	1,907,809	55,725,682	66,152,756	352,027	1,770,067	933,203	93,529	1,503,311	368,101	176,360,938
38	1889	75,779,999	62,378,499	60,289,910	20,371,332	33,577,700	4,848,523	....	190,672	687,957	2,004,104	55,224,648	71,019,107	30,000	1,791,409	736.893	79,174	1,057 030	437,161	171,684,384
38	1890	75,008,665	61,253,732	60,057,235	21,940,369	35,006,274	3,524,884	....	110,078	498,248	1,636,915	53,668,396	80,265,132	154,000	1,460,702	617,600	125,410	1,412,382	346,524	178,826,551

Number of Banks reporting to the Gov'ment †		Capital Authorized by Act	Capital Subscribed	Capital Paid-up	Amount of Rest or Reserve Fund	Notes in Circulation	Balance due to the Dominion Government after deducting advances for credits, pay lists, etc.	Balance due to Provincial Governments	Deposits by the public payable on demand	Deposits by the public payable after notice or on a fixed day	Loans from or Deposits made by other B'nks in Canada, secured	Dep'sits pay'ble on demand, or after notice, or on a fixed day, made by other B'ks in Canada	Balances due to other B'ks in Canada in daily exchanges	Balances due to Agencies of the Bank or to other Banks or Agencies in foreign countries	Balances due to Agencies of the Bank or to other Banks or Agencies in the United Kingdom	Liabilities not included under the foregoing heads	Total Liabilities
38	1891	$75,758,665	$62,674,952	$61,299,305	$23,666,827	$35,634,129	$3,238,857	$2,644,732	$62,649,358	$ 90,158,184	$ 42,129	$2,830,933	$135,279	$216,374	$1,416,382	$487,391	$199,453,832
39	1892	75,958,685	63,169,643	61,938,515	25,086,615	36,194,023	4,409,130	2,988,496	68,694,266	101,526,186	150,000	2,764,171	118,811	127,480	4,120,696	474,426	221,567,771
39	1893	75,458,685	63,170,654	62,099,243	26,459,815	34,418,936	3,399,290	2,977,986	62,594,075	107,885,149	.. ..	2,421,394	200,476	166,966	4,151,804	446,796	218,662,965
39	30th June, 1894	75,458,685	63,171,952	62,112,883	27,157,706	30,254,159	4,798,075	3,821,766	65,006,011	109,924,925	116,265	2,352,405	168,796	121,213	5,521,705	207,285	221,292,707

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* The figures for 1868 to 1889 are taken from the compilation of GARLAND, *Banks, Bankers and Banking in Canada*, pp. 49-59; those for 1867 and 1890-1894, from the *Canada Gazette*.

† Prior to 1875, the returns published in the *Canada Gazette* are so frequently incomplete that it is impossible to supplement Mr. Garland's compilation by showing the number of banks reporting to the Government. Down to 1890, there were always more chartered banks in operation than those reporting to the Dominion Government. Until all the Provincial charters had expired, banks working under them were not obliged to make returns.

	Coin, Bullion and Provincial Notes	Promissory Notes or Bills of other Banks	Balance due from other Banks	Government Securities	Notes and Bills discounted	Landed or other Property of the Bank	Other Debts due to the Bank not included under foregoing heads	Total Assets
1867†	$ 8,200,229	$1,806,052	$5,345,372	$6,277,593	$54,899,142	$1,628,249	$2,618,021	$ 80,772,834
1868	11,820,726	2,021,712	8,617,530	3,608,939	53,652,499	1,667,650	3,803,862	85,192,921
1869	15,101,094	2,293,075	7,043,847	6,027,523	62,879,202	1,696,805	4,117,413	99,159,050
1870	14,018,075	2,440,570	9,887,577	4,847,448	75,673,476	1,684,497	2,421,668	111,973,315

	Specie	Provincial or Dominion Notes	Notes of and Cheques on other Banks	Balances due from other Banks in Canada	Balances due from other Banks not in Canada	Government Debentures or Stock	Loans, discounts or advances on current account to Corporations	Notes and Bills discounted and current	Loans to the Governments	Notes, etc., overdue and not specially secured	Overdue Debts secured	Real Estate other than the Bank Premises	Bank Premises	Other Assets not included under the foregoing heads	Total Assets
1871	$8,755,232	$6,902,369	$3,028,031	$2,022,829	$14,416,213	$1,437,870	$2,103,189	$ 89,764,279	$1,302,218	$1,406,543	$1,347,162	$856,581	$1,760,663	$2,520,293	$136,016,959
1872	6,459,625	8,219,723	3,953,652	2,034,741	10,815,174	1,449,836	2,449,591	113,384,104	543,583	1,141,410	1,553,863	797,790	2,022,943	2 500,764	157,639,816

	Specie	Dominion Notes	Notes of and Cheques on other Banks	Balances due from other Banks in Canada	Balances due from Agencies of the Bank or from other Banks or Agencies in foreign countries	Balances due from Agencies of the Bank or from other Banks or Agencies in the United Kingdom	Government Debentures or Stock	Loans, discounts or adv'nces for wh. shares of the capit'l stock of any other Bank are held as collateral security	Loans, disc'ts or adv'nces for wh. bonds or deb'n's of municipal or other corp'ns, or Dom'n, Prov'l, Brit. or Foreign public sec's are held as collateral securities	Loans, discounts or advances on current account to Corporations	Notes and Bills discounted and current	Loans to the Governm'nt of the Dominion	Loans to the Provincial Governments	Notes and Bills discounted overdue and not specially secured	O'due Debts secured by mortgage or other deed on real est., or by deposit of or lien on stock, or by other securities	Real Estate, the property of the Bank (other than Bank premises), and Real Estate sold by the Bank	Bank Premises	Other Assets not included under the foregoing heads	Total Assets
1873	$7,163,297	$9,109,286	$4,580,294	$2,650,784	$ 6,378,954	$3,402,461	$1,373,195	$3,812,914	$2,503,652	$2,919,798	$119,647,350	$244,766	$ 19,507	$1,651,500	$1,455,385	$ 586,996	$2,359,793	$2,659,465	$172,736,993
1874	7,483,118	9,590,454	5,629,737	3,808,632	8,888,003	1,558,037	1,204,843	5,308,810	5,606,816	3,468,054	139,379,457	144,660	20,810	1,494,808	1,597,524	575,449	2,785,297	2,455,836	200,905,145
1875	6,879,372	8,544,621	4,578,143	3,476,582	8,182,257	1,601,275	1,331,151	2,976,651	3,531,986	3,228,274	119,402,322	56,955	147,561	4,436,636	2,775,862	853,498	3,059,971	3,248,401	183,310,243
1876	6,176,104	8,318,113	4,187,075	3,608,437	5,948,860	2,295,283	1,280,590	2,829,588	6,814,100	4,734,335	122,562,334	97,147	277,089	3,185,631	3,218,985	1,067,029	3,174,299	2,105,104	181,880,061
1877	6,127,739	8,896,455	4,417,169	3,523,669	4,685,860	2,285,357	2,682,262	2,091,522	5,506,701	3,581,615	116,475,030	192,984	813,349	3,133,176	4,057,591	1,242.171	3,300,292	2,351,994	176,364,764
1878	5,623,005	8,098,205	4,381,070	4,489,323	5,803,848	1,290,501	2,203,179	2,580,616	5,782,760	3,794,912	117,556,319	77,654	1,838,724	2,666,20[illegible]	3,774,681	2,141,827	3,518,848	2,516,814	178,138,495
1879	6,809,029	9,136,439	4,566,554	4,743,016	19,313,583	5,287,245	2,086,922	1,200,446	5,894,212	4,454,973	97,603,688	80,699	574,515	2,921,818	3,474,920	2,383,474	3,342,966	4,428,196	178,302,684

	Specie	Dominion Notes	Notes of and Cheques on other Banks	Loans to or Deposits made in other Banks secured	Loans to or Deposits made in other Banks unsecured	Balances due from other Banks in Canada	Balances due from Agencies of the Bank or from other Banks or Agencies in foreign countries	Balances due from Agencies of the Bank or from other Banks or Agencies in the United Kingdom	Dominion Government Debentures or Stock	Provincial, British or Foreign or Colonial Public Securities other than Canadian	Loans, disc'ts or adv'nces for wh. stock, bonds or deb's of mun'cpl or oth'r corp'ns, or Dom., Prov., Brit. or Foreign or Col'n'l public securities, other than Canadian, are held as collater'l securities	Loans, discounts or advances on current account to Municipal C'rp'rations	Loans, discounts or advances on current account to other Corporations	Other current loans, discounts and advances to the public	Loans to the Governm'nt of the Dominion	Loans to the Provincial Governments	Notes and Bills discounted overdue and not specially secured	Other overdue debts not specially secured	Notes & bills disc'td overdue & other o'due debts secured by mortgage or oth. deed on real est., or by dep'sit of or lien on stock, or by oth'r sec'ties	Real Estate, the property of the Bank (other than Bank premises)	Mortgages on Real Estate sold by the Bank	Bank Premises	Other Assets not included under the foregoing heads	Total Assets
1880	$5,965,270	$10,520,302	$4,565,005	....	$683,070	$3,263,553	$27,041,608	$4,714,424	$1,122,109	$1,565,542	$ 8,011,068	$ 690,384	$ 4,325,660	$105,587,672	$ 609,220	$ 632,137	$1,783,071	$217,693	$3,015,209	$1,998,311	$393,713	$3,140,523	$2,691,920	$192,537,574
1881	6,561,619	9,856,837	5,835,416	....	882,567	2,555,260	19,776,513	5,814,626	1,099,822	1,802,504	13,976,340	646,350	7,750,527	123,710,008	895 998	823,765	1,107,207	212,304	2,174,370	1,718,830	505,087	3,020,158	2,861,979	213,588,098
1882	6,555,761	10,463,842	6,765,973	....	379,457	3,331,521	11,140,075	1,813,235	1,006,869	1,285,079	16,861,583	1,988,916	12,153,532	144,414 108	651,952	911,523	1,310,435	141,262	1,679,854	1,409,835	693,763	3,116,247	2,600,379	230,675,211
1883	7,225,552	11,176,840	7,288,367	$334,101	235 508	3,307,283	18 060,156	4,225,913	900,722	1,325,044	10,415,155	1,259,904	15,254,866	133,378,550	825,182	1,696,007	2,100,756	175,524	2,120,018	1,096.893	848,013	3,061,835	1,881,452	228.193,650
1884	7,469,756	11,007,629	6,100,270	493,894	247,614	2,331,317	12,411,217	5,118,913	1,405,435	1,612,985	11,929,655	1,331,802	15,878 352	122,109,496	1,517,432	8[illegible],898	3,222 865	122,677	3,031,569	1,219,421	834,350	3,188,745	2,291,199	215,787,511
1885	6,710,058	12,446,829	7,869,777	172,198	679,542	3,204,023	16,098,642	3,936,556	4,317,070	3,351,106	12,556,050	1,578,397	14,070,831	125,493,660	1,170,642	1.296,190	1,545,858	98,688	2,022,278	1,379,820	661,118	3,317,860	3,886,342	227,863,546
1886	5,891 576	9,405,594	7,135,076	131,502	464,014	3,007,886	15,446,375	2,581,665	4,438,638	3,046,210	13,153,174	2,144,802	14,855,133	135,632,631	1,083,783	1,594,284	1,109,611	80,178	1,452,275	1,331,261	821,281	3 569,524	2,923.999	231,300.482
1887	6,037,563	10,030,196	6,474,758	164,904	274,526	3,855,211	13,097,795	3,268,154	2,699,679	3,659,640	10,451,761	2,813,823	15,871,454	138,398,246	1,004 181	2,065,674	1,412,603	52,120	1,857,944	1,218.352	673,457	3,659,014	3.535,917	232,576,983
1888	7,372,132	10,671,722	8,257,385	557,793	105,000	3,605,991	18,993,815	3,703,936	2,045,076	4,475,132	11,737,187	3,706,035	19,252,233	145,750,485	1,246,447	582,834	969,029	144,152	1,499,100	989 540	696 489	3 737,699	5,248,889	255,348,112
1889	5,967,665	9,117,810	7 826,325	290,708	200,738	3,182,252	10,729,877	3,961,996	2,603,236	5,550,051	13,516,388	1,655,171	23,209,430	150,422,602	1,036,390	927,100	1,072,996	63.328	1,611 284	990,080	714,489	3,957,122	3,559,612	252,166,663
1890	6,650,948	9,678,322	7,714,525	404,888	55,000	3,335 890	9,199,504	4,031,652	2,462,347	6,141,090	13,440,019	2,690,187	27,268,006	153,236,184	923,739	1,742,313	1,429,783	65,579	1,263,029	1,027,107	716,451	4,187,572	2,453,015	260,137,159

	Specie	Dominion Notes	Deposits with Dominion Governm'nt for security of note circulation	Notes of and Cheques on other Banks	Loans to or Deposits made in other Banks secured	Deposits payable on demand or after notice or on a fixed day, made with other Banks in Canada	Balances due from other Banks in Canada in daily exchanges	Balances due from Agencies of the Bank or from other Banks or Agencies in foreign countries	Balances due from Agencies of the Bank or from other Banks or Agencies in the United Kingdom	Dominion Government Debentures or Stock	Canadian Mun'l Sec's, and British, Prov'nc'l, or Foreign, or Col'n'l Pub. Sec's (other than Dominion)	Canadian, British and other Railway Securities	Call Loans on Bonds and Stocks	Current Loans	Loans to the Governm'nt of the Dominion	Loans to the Provincial Governments	Overdue Debts	Real Estate, the property of the Bank (other than Bank premises)	Mortgages on Real Estate sold by the Bank	Bank Premises	Other Assets not included under the foregoing heads	Total Assets
1891	$5,769,313	$10,113,040	$ 843,075	$9,119,736	$ 43,706	$3,289.518	$256,657	$18,464 364	$6,337,591	$3,061,722	$6 438,105	$4,825,965	$14,401,695	$186,590,602	....	$ 322,013	$2,656,588	$1,144,391	$785,713	$4,463,619	$1,537,649	$280,754,661
1892	6,720,500	12,381,108	1,761,259	8,746 293	150,000	3,616,137	140,885	21,688,396	1,036,344	3,328,082	8,614,936	6,243,333	19,957,943	198,532,160	....	2,447,234	2,387,268	1,007,287	798,699	4,661,621	1,711,416	305,730,910
1893	7,691,331	13,287,292	1,818 571	8,323,753	....	3,630,883	173,697	18,229,248	3,540,220	3,191 383	9,981,680	6,692,856	14,236,629	200,397,498	....	2,263,712	3,040,078	834,480	636,640	5,132,156	1,129,385	304,231,696
30th June, 1894	7,438,513	14,016,698	1,831,979	6,462,944	90,000	3,287,255	228,299	15,650,822	3,086,167	3,157,413	10,859,394	8,240,707	14,600,915	206,958 912	$2,629	487,093	2,811,395	928,151	623,800	5,365,188	1,413,954	307,542,429

† For 30th June, 1867, the amounts given for total Assets are approximate, the return for Nova Scotia lacking details for one Bank.

APPENDIX II

SUNDRY ITEMS OF THE STATEMENTS OF LIABILITIES AND ASSETS

FURNISHED to the Department of Finance for the last juridical days of the months ending the 31st December, 1890-1893, and the 30th June, 1894, by Chartered Banks of the Dominion of Canada having Paid-up Capital Stocks of $500,000 or over. Compiled from the *Canada Gazette.*

(000 omitted)	Year 31st Dec.	Capital paid-up	Rest	Circulation	Deposits by the public payable on demand	Deposits by the public payable after notice or on a fixed day
Bank of Montreal, Montreal	1890	$12000	$6000	$5332	$ 9994	$10782
	1891	12000	6000	5163	13249	11124
	1892	12000	6000	5327	13597	12475
	1893	12000	6000	5056	13428	15086
30th June,	1894	12000	6000	4542	13740	13780
Canadian Bank of Commerce, Toronto	1890	6000	800	2942	4115	8547
	1891	6000	900	2992	4942	10227
	1892	6000	1000	3255	5775	11322
	1893	6000	1100	3061	4862	11252
30th June,	1894	6000	1200	2545	5105	11656
Merchants' Bank of Canada, Montreal	1890	5799	2335	3107	3143	5981
	1891	5799	2510	3461	3797	6756
	1892	6000	2725	3474	3831	6755
	1893	6000	2900	2927	3261	6352
30th June,	1894	6000	3000	2393	3826	6610
Bank of British North America, London, Eng., and Montreal[1]	1890	4866	1241	1280	2087	6294
	1891	4866	1289	1193	2201	6879
	1892	4866	1289	1173	2327	7153
	1893	4866	1338	1084	2239	6735
30th June,	1894	4866	1338	1015	2070	6345
Bank of British Columbia, Victoria and London, Eng.	1890	2920	973	1106	2004	315
	1891	2920	1070	1065	2389	283
	1892	2920	1266	848	2707	602
	1893	2920	1314	886	2481	896
30th June,	1894	2920	1338	800	2772	954
Quebec Bank, Quebec	1890	2500	500	568	3875	1421
	1891	2500	500	648	4331	1380
	1892	2500	550	704	4481	1778
	1893	2500	550	826	4316	1872
30th June,	1894	2500	550	642	4622	2269
Bank of Toronto, Toronto	1890	2000	1500	1591	3909	2842
	1891	2000	1600	1699	5191	2947
	1892	2000	1700	1771	5425	3213
	1893	2000	1800	1591	5132	3330
30th June,	1894	2000	1800	1254	5434	3129
Molsons' Bank, Montreal	1890	2000	1100	1913	3637	3054
	1891	2000	1100	1828	4345	3575
	1892	2000	1150	1868	5429	3785
	1893	2000	1200	1761	4806	3516
30th June,	1894	2000	1200	1535	5010	3872
Imperial Bank of Canada, Toronto	1890	1500	700	1416	2494	3371
	1891	1909	954	1516	2981	4448
	1892	1947	1023	1592	3197	5007
	1893	1953	1101	1503	2608	5565
30th June,	1894	1954	1152	1220	2459	5660

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[1] The return from the Bank of British North America includes Canadian business only.

Total Liabilities	Specie	Dominion Notes	Balances due from agencies of the bank, or from other banks or agencies in foreign countries	Current Loans	Total Assets	Rate per cent. of last dividend
$28700	$2221	$2399	$ 4553	$28406	$47978	10
32439	1695	2142	9871	28687	51405	10
35427	2073	3157	11395	29484	54432	10
36007	2760	2207	10854	28831	55212	10
36269	2704	2910	7356	33060	55560	10
16074	438	466	759	16796	23061	7
18841	392	587	2227	16298	25926	7
21748	396	714	3404	17774	28924	7
20695	399	780	1716	19664	28016	7
20743	361	693	1683	19021	28001	7
13255	452	468	512	16283	21664	7
15163	320	566	1103	16653	23765	7
15586	299	673	1335	16393	24507	7
14139	382	859	1053	16703	23258	7
14010	386	1082	726	16725	23102	7½
9788	383	859	677	9306	14285	7½
10382	320	668	623	9061	12179	7½
10738	348	712	692	9321	13122	7½
10103	362	701	693	8626	11964	7½
9483	346	628	881	8545	12024	7½
4530	186	231	133	4265	5125	6
5486	212	218	76	5340	6188	6
5759	429	794	69	5039	6689	6
5742	512	797	..	5384	7001	6
6075	408	675	62	5838	7287	6
5913	73	432	77	5998	9030	7
6424	80	356	79	5356	9528	7
7311	79	287	67	6418	10411	7
7116	90	557	56	6200	10248	7
7767	96	520	87	7027	10950	7
8409	308	431	185	9264	12188	10
9956	338	695	594	9861	13806	10
10546	356	587	546	11278	14550	10
10157	542	1112	399	10412	14238	10
9959	547	1154	420	9934	13989	10
8858	257	357	72	9518	12186	8
9971	201	551	197	10206	13349	8
11470	206	503	197	11137	14984	8
10326	121	691	97	10449	13890	8
10732	140	613	151	10777	14335	8
7704	300	699	270	6152	10055	8
9077	293	648	461	7128	12156	8
10033	288	688	469	7805	13232	8
10218	358	1174	285	7110	13435	8
9845	384	1028	331	7190	13097	8

(000 omitted)	Year 31st Dec.	Capital Paid-up	Rest	Circulation	Deposits by the public payable on demand	Deposits by the public payable after notice or on a fixed day
Dominion Bank,	1890	$1500	$1300	$1292	$2739	$5335
Toronto	1891	1500	1350	1226	2828	5796
	1892	1500	1400	1132	3525	6140
	1893	1500	1450	1036	2776	6376
	30th June, 1894	1500	1500	943	2961	7008
Bank of Nova Scotia,	1890	1114	700	1307	1265	4061
Halifax	1891	1500	1000	1187	1013	4375
	1892	1500	1050	1128	1256	4306
	1893	1500	1200	1163	1180	4553
	30th June, 1894	1500	1200	1148	1261	4543
Ontario Bank,	1890	1500	250	964	1532	2785
Toronto	1891	1500	280	1032	1624	3014
	1892	1500	315	1056	1852	3475
	1893	1500	345	901	1382	3462
	30th June, 1894	1500	345	900	1379	3574
Eastern Townships Bank,	1890	1487	550	782	589	1884
Sherbrooke	1891	1487	600	774	568	1989
	1892	1499	625	780	552	2236
	1893	1499	650	761	544	2396
	30th June, 1894	1499	680	814	523	2369
Bank of Ottawa,	1890	1000	425	870	709	2094
Ottawa	1891	1204	587	1007	819	2115
	1892	1342	710	1012	1282	2458
	1893	1487	847	1030	1032	3067
	30th June, 1894	1489	848	825	810	3340
Bank of Hamilton,	1890	1145	515	1103	1153	2458
Hamilton	1891	1239	614	1175	1383	3074
	1892	1250	650	1161	1487	3525
	1893	1250	650	1145	1250	3623
	30th June, 1894	1250	675	886	1286	3590
Banque du Peuple,	1890	1200	400	756	1423	2160
Montreal	1891	1200	425	748	1246	2400
	1892	1200	480	810	1542	3372
	1893	1200	550	825	1499	3928
	30th June, 1894	1200	600	787	2168	4391
Banque Nationale,	1890	1200	100	632	683	1147
Quebec	1891	1200	....	710	705	1139
	1892	1200	....	937	744	1474
	1893	1200	30	1054	842	1735
	30th June, 1894	1200	30	852	787	1717
Union Bank of Canada,	1890	1200	200	1036	854	2195
Quebec	1891	1200	225	1117	1006	2310
	1892	1200	225	1130	1048	2758
	1893	1200	250	1160	735	2952
	30th June, 1894	1200	280	939	939	2971

Total Liabilities	Specie	Dominion Notes	Balances due from agencies of the bank, or from other banks or agencies in foreign countries	Current Loans	Total Assets	Rate per cent. of last dividend
$9394	$187	$344	$ 811	$7415	$12407	10
9985	197	349	1390	6766	13055	10
11054	223	611	1399	7299	14178	10
10243	227	442	1106	6996	13423	10
10936	240	653	1033	7202	14076	12
7089	292	377	108	5554	8911	7
7300	261	451	309	6445	9809	8
7505	378	492	240	6468	10058	8
7739	299	565	309	6191	10441	8
8295	179	443	941	6400	11038	8
5506	176	347	88	5152	7384	7
5779	160	360	117	5292	7715	7
6685	170	372	175	6045	8636	7
6180	180	302	77	5869	8134	7
6223	181	319	143	6024	8180	7
3305	117	97	164	4550	5493	7
3366	123	99	194	4110	5569	7
3625	107	92	214	4458	5879	7
3766	117	98	411	4528	6050	7
3810	91	104	163	4774	6060	7
4010	116	94	42	4683	5534	8
4228	117	122	269	5011	6125	8
5055	114	123	217	5895	7235	8
5368	120	169	312	6164	7813	8
5287	130	186	289	5902	7798	8
4930	183	186	23	4996	6719	8
5721	159	220	47	5779	7706	8
6375	170	188	131	5113	8401	8
6551	173	228	35	5881	8558	8
6408	182	301	37	5893	8395	8
4651	44	146	4	5201	6371	6
4617	47	184	45	4993	6305	6
6029	97	172	33	5853	7786	6
6574	50	191	3	6706	8391	6
7530	48	438	75	6947	9308	6
2562	87	112	96	2785	3997	6
2634	67	59	92	2639	3966	6
3246	74	105	38	2918	4593	6
3721	61	191	87	3772	5116	6
3530	61	109	75	3901	4838	6
4851	31	174	30	5435	6419	6
5086	28	194	66	5698	6655	6
5811	38	226	8	6023	7397	6
5645	24	174	25	5742	7177	6
5731	30	229	63	6028	7266	6

(000 omitted)	Year 31st Dec.	Capital paid-up	Rest	Circulation	Deposits by the public payable on demand	Deposits by the public payable after notice or on a fixed day
Merchants' Bank of Halifax, Halifax	1890	$1100	$ 375	$ 996	$ 945	$2242
	1891	1100	450	949	993	2514
	1892	1100	510	1020	1391	2842
	1893	1100	600	1013	1222	3001
	30th June, 1894	1100	600	932	1187	3384
Standard Bank, Toronto	1890	1000	460	815	1465	2183
	1891	1000	500	926	1782	2656
	1892	1000	525	911	1802	3038
	1893	1000	550	835	1640	3254
	30th June, 1894	1000	600	580	1325	3554
Banque d'Hochelaga, Montreal	1890	710	160	581	447	989
	1891	710	160	589	620	1380
	1892	710	200	566	598	1947
	1893	710	230	641	680	2570
	30th June, 1894	710	270	634	641	2457
People's Bank of Halifax, Halifax	1890	600	70	433	215	502
	1891	680	90	490	291	580
	1892	700	115	428	227	930
	1893	700	130	441	360	810
	30th June, 1894	700	160	438	440	834
Traders' Bank of Canada, Toronto	1890	592	20	576	724	1163
	1891	604	35	591	995	1555
	1892	607	55	590	856	2200
	1893	607	75	600	768	2451
	30th June, 1894	607	85	565	726	2607
Bank of New Brunswick, St. John	1890	500	440	455	674	836
	1891	500	500	435	508	1079
	1892	500	525	444	656	1131
	1893	500	525	453	591	1143
	30th June, 1894	500	525	463	624	1142
Union Bank of Halifax, Halifax	1890	500	70	335	227	631
	1891	500	90	278	352	595
	1892	500	110	274	353	449
	1893	500	120	302	440	566
	30th June, 1894	500	140	331	467	697
Halifax Banking Company, Halifax	1890	500	170	489	411	1429
	1891	500	210	463	384	1543
	1892	500	210	450	444	1538
	1893	500	210	455	409	1588
	30th June, 1894	500	250	485	423	1590
Banque Jacques Cartier, Montreal	1890	500	150	413	1013	645
	1891	500	150	419	575	1390
	1892	500	175	403	598	1858
	1893	500	215	402	747	1964
	30th June, 1894	500	225	427	636	2113

Total Liabilities	Specie	Dominion Notes	Balances due from agencies of the bank, or from other banks or agencies in foreign countries	Current Loans	Total Assets	Rate per cent. of last dividend
$4374	$143	$398	$168	$4553	$5849	6
4714	145	455	87	4261	6264	6
5991	138	544	170	4794	7601	6
5941	187	465	110	5130	7641	7
6160	143	402	108	5497	7936	7
4488	141	210	15	3689	6052	7
5440	140	247	86	3550	7048	8
5939	138	274	127	3604	7576	8
6236	145	295	31	4398	7807	8
5928	149	298	25	4533	7550	8
2097	65	151	51	2095	2975	6
2659	68	113	71	2261	3591	6
3222	58	130	50	3186	4214	6
3974	54	233	61	3353	5032	6
3845	66	117	148	3365	4856	6
1210	35	35	9	1534	1931	6
1371	30	45	1	1932	2216	6
1611	25	111	79	2044	2488	6
1655	26	113	34	2207	2572	6
1733	24	121	77	2206	2658	6
2530	72	140	16	2371	3166	6
3470	68	147	5	2905	4141	6
3960	79	132	69	2920	4661	6
4188	101	221	24	2979	4901	6
4271	114	194	23	3140	4982	6
2038	108	200	67	1993	3070	12
2087	99	172	70	2271	3122	12
2317	182	162	75	2347	3379	12
2291	156	168	69	2274	3372	12
2347	167	238	299	1915	3439	12
1390	24	40	8	1356	1991	5½
1412	25	70	1	1502	2041	6
1277	24	33	12	1325	1925	6
1513	25	84	9	1670	2179	6
1746	27	98	19	1769	2420	6
2380	34	68	28	2722	3075	6
2552	22	86	32	2966	3262	6
2519	30	236	120	2701	3253	6
2501	49	189	54	2712	3298	6
2565	49	113	93	2801	3406	6
2145	42	30	13	1866	2841	7
2468	29	118	31	2050	3174	7
2945	29	98	34	2514	3685	7
3221	30	65	37	2952	4023	7
3300	29	155	63	3081	4069	7

APPENDIX III

TABLE showing grand total of Notes in Circulation at the end of each calendar month from January, 1879, to June, 1894, from "Report of the Chartered Banks of the Dominion of Canada," published as supplement to the *Canada Gazette*:

	1879	1880	1881	1882	1883
	$	$	$	$	$
Jan	19985958	20393301	26010035	31946809	33722447
Feb	19014558	20495219	26169190	32524142	34044909
Mar	19193485	20793775	26439316	32947269	34517813
Apr	18162105	19864343	26044888	32712335	33082658
May ..	17479608	19612921	25575729	31861044	31301075
June ..	18090814	20186176	26102368	32229937	32212240
July	16956630	20186470	26047733	31729233	32093938
Aug	17258597	21397953	27481218	31458191	32118943
Sep	20004989	24369798	31753589	33953387	33145845
Oct	23201007	27981567	35034308	37940516	35563243
Nov	21827712	27745597	33145292	37180399	34007350
Dec	22252761	27328358	32358844	36501694	33589454

	1884	1885	1886	1887	1888
	$	$	$	$	$
Jan	30031076	29689046	29845735	32110620	31952132
Feb	29576177	30166082	29691347	32304887	31363400
Mar	30197882	29791262	29959916	31521420	31985285
Apr	29239635	28491692	29281603	30467891	30742577
May ..	28449049	29124205	28900765	30086803	29278074
June ..	29654511	29692803	29200627	30438152	30444643
July	28063301	29607902	28882843	30845304	30241455
Aug	29137301	30108359	29515389	31666467	30448815
Sep	31456024	31334621	31927050	33765609	32913526
Oct	33988079	34576246	35322015	37012342	36246775
Nov	33653945	33702934	35260345	35163321	36060933
Dec	31935933	32363992	34578347	34354595	34785486

	1889	1890	1891	1892	1893	1894
	$	$	$	$	$	$
Jan	31592372	30870961	31662099	32705400	32831747	30571375
Feb ..	31866151	30627074	31925749	32711015	32978840	30603267
Mar ..	32471522	31704281	33020661	32483965	33430883	30702607
Apr ..	31299842	30671938	30904096	31496369	32633073	29996472
May ..	30012900	30831914	30917214	31383218	31927342	28467718
June ..	31209972	32059177	31379886	32614699	33483413	30254159
July ..	30343413	31167628	30579968	32488718	33573468	
Aug ..	31090284	32718363	32012196	32646187	33308967	
Sep	32888429	35522319	34083051	34927615	35128926	
Oct	35233310	36480649	37182768	38688429	36906941	
Nov ..	34899830	36344546	37430690	37124505	35120561	
Dec ..	33577700	35006274	35634129	36194023	34418936	

APPENDIX IV

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